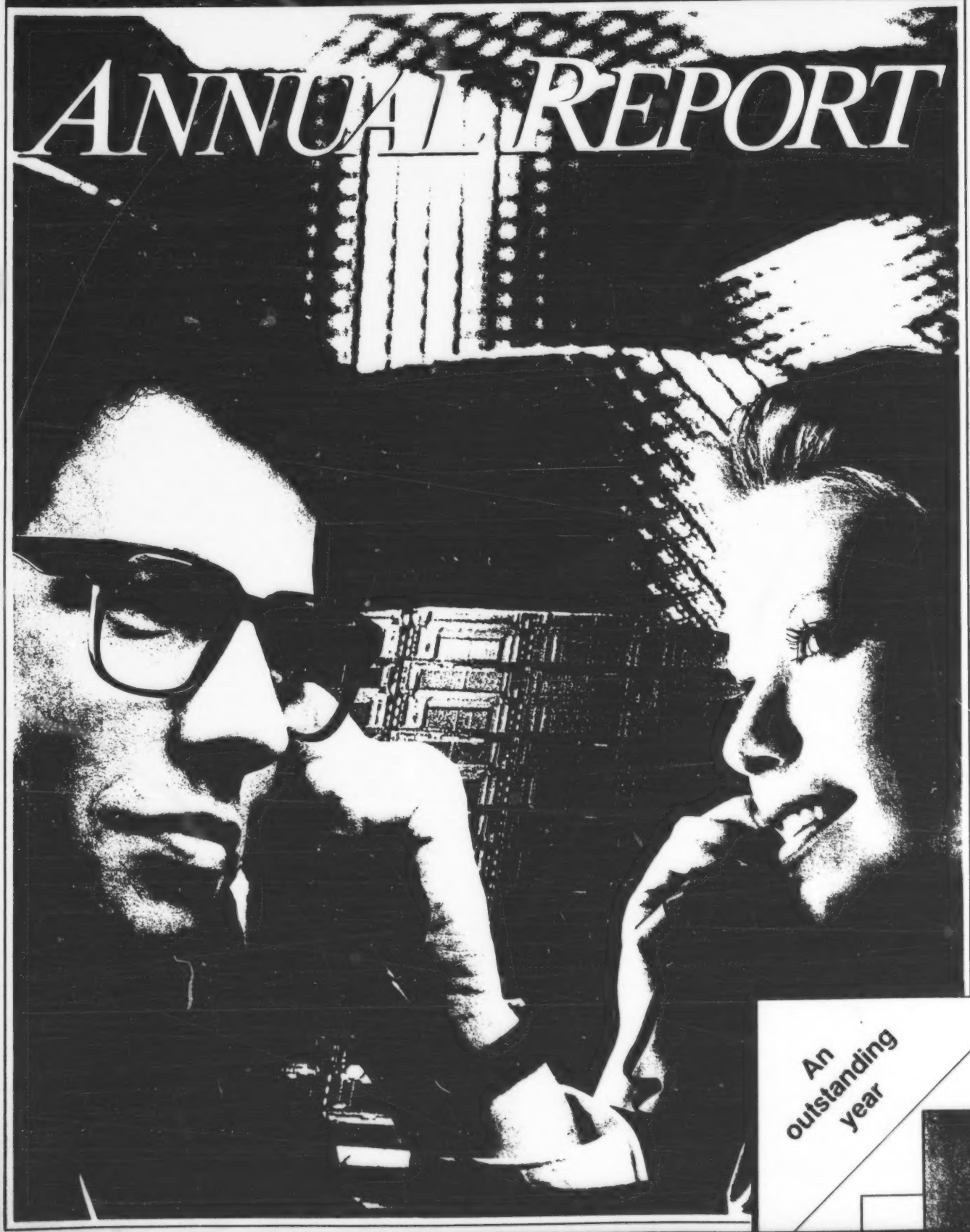
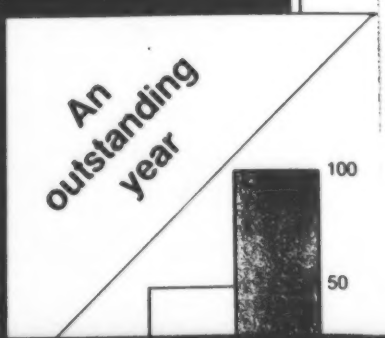
SaskTel

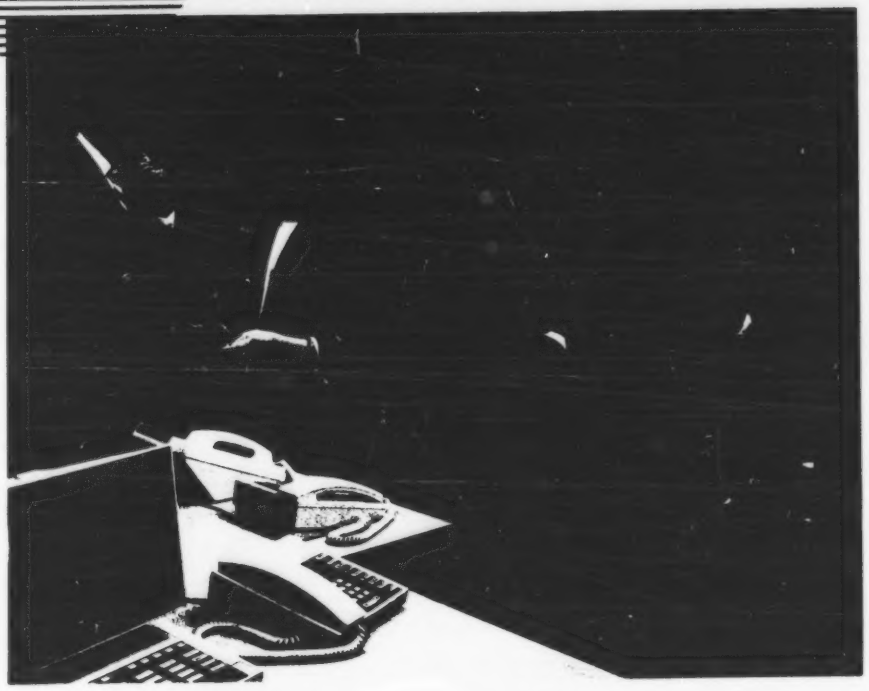
1987

ANNUAL REPORT





SASKATCHEWAN CENTRES FOR BUSINESS COMMUNICATIONS



Today's business world is full of challenges. Operating costs have risen. Consumers are demanding better quality and convenience. And the competition is increasing.

SaskTel Business Centres feature the products that help you stay ahead of the competition. Quality products backed by province-wide service and decades of experience.

Visit a SaskTel Business Centre in Regina (Cornwall Centre) or Saskatoon (119 4th Avenue South).

For more information call: 1-800-667-8654 (Regina)
1-800-772-0571 (Saskatoon)

SaskTel

Nationwide Communications through Telecom Canada

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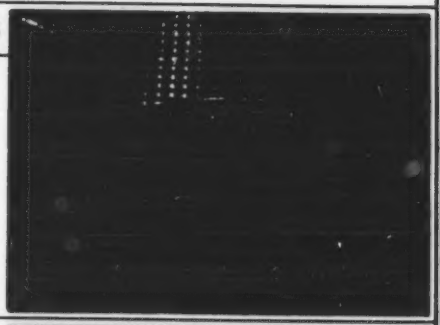

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SaskTel officially opened a second Business Centre which caters exclusively to the communication needs of business customers. The new centre is located in Regina, and like its counterpart in Saskatoon, features state-of-the-art products and services designed to help customers improve their efficiency and stay ahead of the competition.

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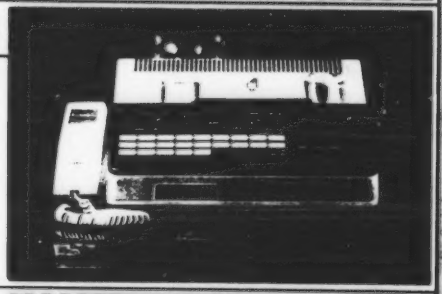
The stories of three business customers are highlighted. Also included is a discussion of the new systems installed by SaskTel and reasons why customers are pleased with the flexible service options, equipment choices and pricing plans available from the corporation.



Meeting the challenge of change 17

A new mission statement defines the goals and objectives and reflects company-wide preparations to meet increased competition in the years ahead. The corporation's traditional approach to business is being modified to meet the challenges presented by the widespread changes taking place throughout the telecommunications industry.

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On the cover

Two figures, communicating against a background photo of micro-circuitry components, reflect SaskTel's commitment to the human element of digital modernization.

Letter of transmittal

Regina, Saskatchewan
March 28, 1988

To His Honour
The Honourable F.W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the annual report of Saskatchewan Telecommunications for the year ending December 31, 1987, including the financial statements therefor, duly certified by auditors for the corporation, and in the form approved by the Treasury Board, all in accordance with The Saskatchewan Telecommunications Act.

I have the honour to be, Sir,
Your obedient servant,

Hon. J. Gary Lane, Q.C.
Minister Responsible for
Saskatchewan Telecommunications

A remarkable performance

SaskTel takes pride in being one of the best managed and most efficient telecommunications companies in Canada. Before 1987, the corporation's net earnings exceeded $35 million in each of the three preceding years. An even stronger financial performance took place during 1987 with record net earnings of $50.5 million. Half of this will be returned to Saskatchewan residents in the form of a dividend paid to the provincial government.

The 1987 net earnings was a remarkable achievement considering the large investment associated with the ongoing rural Individual Line Service project and the digital switching programs. These and other network modernization projects are keeping SaskTel technology at the forefront of the telecommunications industry and are contributing directly to reducing costs and improving efficiency.

In addition, Saskatchewan customers set new records for telecommunications services in 1987. Long distance messages originating in Saskatchewan exceeded 117 million, an increase of 5.8 percent over the previous year.

The provision of high-quality, dependable service at reasonable rates is an 80-year old tradition at SaskTel. However, in an increasingly competitive marketplace, SaskTel must also ensure its continued profitability — a fundamental test of a company's health. Rates must be adjusted gradually, either up or down, to reflect the real cost of providing service and to help the corporation stay competitive.

SaskTel's goal is to remain as the single most important source for all telecommunications products, services and systems in the province. To do this, the corporation has rededicated itself to improving customer service and providing the highest possible standards of performance at the lowest possible rates.

Besides a technically advanced network, SaskTel's basic service rates are among the lowest in North America, even with the limited rate increases that became effective in December 1987 — the first since 1983.

The emergence of a new, well-defined strategy for business, the benefit of a skilled and dedicated work force, and the use of computer technology to increase productivity have all contributed to a gradual transformation of SaskTel into an industry leader. Today, the corporation is able to respond more quickly and more efficiently than ever before to traditional, as well as

President's report

SaskTel in 1987 experienced one of the most successful and challenging years in its 80-year history.

I am proud to report record net earnings of $50.5 million and record revenues of $469.5 million. This compares with net earnings the previous year of $36.5 million on revenues of $449.6 million. The outstanding financial performance was accomplished while maintaining rates among the lowest in the country and providing wage and salary levels competitive with provincial and industry standards.

Credit for the record financial performance is widely shared: our employees, who are adopting new technologies to improve our levels of efficiency, service and productivity; our earnings improvement programs, which continue to find ways to reduce costs, and our management team, which is committed to enhancing the productive use of the company's resources.

I am also pleased to report these advances were accompanied by substantial investments towards improving service to our customers, a key priority as the company prepares for the more competitive business marketplace expected in the near future.

By year end, more than 23,000 customers previously served by multi-party lines, were enjoying the benefits of private telephone service. They represent more than 30 percent of the 73,000 customers who will benefit from the $264 million rural indjvidual line service (ILS) program when it is completed in 1991. SaskTel was the first telephone company in Canada to initiate a plan to eliminate multi-party lines.

The enthusiasm shown by our rural customers for the ILS program is fueled by the convenience and privacy which result, and by the recognized saving of their valuable time, especially at critical times in the agricultural year. As more rural customers receive private service, some engaging vignettes are being shared with our employees. In one, a farmer tells of using a cordless telephone while making repairs to his combine. He was able to call his dealer for advice and to order repair parts without having to leave his work or to wait until his phone line was free.

A program related to rural individual service, to improve central office switching equipment, was substantially enhanced in late 1987 with an additional commitment of $133 million. When added to our earlier commitment of $128 million toward central office upgrading to support the ILS program, the enhanced program now will bring the benefits of modern digital technology to the majority of our rural and urban customers by the mid-1990s. This $261 million investment will provide our business and residential customers with the highest quality telecommunications support that is the equal of any in the world. For our residential customers, this will mean access to the new "custom calling features", allowing customers to literally program their telephone service, to forward calls to other locations, to receive a signal when a second call is waiting, or to set up a three-way conference call, among others. Services like these will also be available province-wide to businesses with smaller system requirements.

J.A. Coombs, President and C.E.O.

Our fiber optic system was expanded during the year with completion of the $18 million Saskatchewan portion of the Telecom Canada fiber optic system. The Saskatchewan portion links with Manitoba at Kirkella and the Alberta portion at Lloydminster. The state-of-the-art expansion is integrated with our existing 3,270-kilometre system while also forming part of Telecom Canada's 7,100-kilometre coast-to-coast fiber system to be completed in the early 1990s. This will be a key element in meeting forecast growth resulting from demands for integrated services, primarily high-speed data, as we move toward the year 2000.

In anticipation of an increasingly competitive business environment in the near future, the company began development of a competitive group within our Business Development Division. The new division, when formally established in January 1988, will be responsible for anticipating, serving and responding to the needs of larger businesses in Saskatchewan. The new division's challenge is to assist these business customers in applying modern telecommunications products and services in ways that will support their efforts for greater efficiency and competitiveness.

In keeping with our focus on customer service, SaskTel in October officially opened its new Business Communications Centre in Regina.

The centre provides demonstrations of and consultations on the latest in business communications products and services for customers in southern Saskatchewan. Our first Business Communications Centre was opened in Saskatoon in 1986 to serve the northern half of the province.

Preparations for competition also involved completion in 1987 of a restructuring of the company undertaken in 1986. This ambitious undertaking has begun to yield results, in the efficiencies reflected by our financial results and in more effective ways to meet our customers' requirements.

SaskTel also participated during the year in the formation of a new company, to be established early in 1988, combining the expertise and facilities from four partners — SaskTel, SaskCOMP, Lease Corporation Limited and Mercury Graphics. This exciting partnership holds the promise of a powerful Saskatchewan-based competitive force offering customers a full-service company in large-scale computers and data services. SaskTel's main frame computer facilities were identified to become part of this new company, from which SaskTel will obtain its required services.

The new company will also offer customers lease or purchase options to meet their requirements as these evolve. As our society moves further into the Information Age, this new venture intends to be on the leading edge of the rapidly growing market for computer and data services.

Our satisfying financial performance in 1987 did not preclude a careful assessment of future revenue requirements. Accordingly, we received approval for a range of modest rate increases, which took effect on December 15. These will add approximately $10 million to our revenues in 1988 and will help offset costs associated with the improvements to our network. The rate increases were the first in almost five years. We were pleased to note that our customers generally have regarded these adjustments as reasonable.

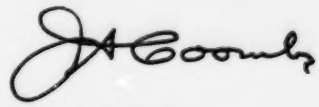
Saskatchewan residents continued to recognize the bargain which today's telephone rates represent, by placing a record 117.2 million long distance calls in 1987. SaskTel also had in operation a record 531,929 lines in service. These figures compare with 522,674 in 1986 and 110.7 million long distance calls.

Advances in technology, improvements in customer services and record net earnings were tempered, however, by an unsettled labor situation which remained unresolved at year end.

During the year, our in-scope employees found themselves engaged in strike action. This proved as distasteful to the majority of our union employees, as demonstrated by a second vote which rejected strike action, as the company found the limited lockout action it was obliged to initiate. At year end, the company was preparing a new offer in a sincere attempt to resolve the impasse while honoring the provincial restraint guidelines.

The trying labor situation should not be allowed to overshadow the dedication of the vast majority of our employees, both in-scope and management. Their willingness to meet the challenges ahead of us, their pride in their company and their commitment to serving the people of the province gives me much confidence as we plan the years ahead.

During 1987, four members retired from our Board of Directors. I wish to acknowledge with warm thanks the considerable contributions to SaskTel by Ted Urness of Saskatoon, Doug Friend of Rosetown, Bertha Vanderhaeghe of Esterhazy and Mark Seidel of Humboldt. They and the other members of our Board provided valuable guidance and support throughout a year of considerable change for the company. I wish also to express my sincere thanks to our Minister, Hon. J. Gary Lane, and the Government of Saskatchewan, without whose guidance, understanding and support the accomplishments of 1987 would not have been possible. ■



James A. Coombs
President and
Chief Executive Officer

Towards a digital network

All people value their privacy. And no one has more reason to revel in this privacy than the 23,000 SaskTel customers whose rural, multi-party lines have already been converted to Individual Line Service (ILS). But privacy is only one of the benefits. The replacement of older switching equipment with leading-edge digital facilities has opened up a new world of choice and convenience for thousands of rural customers across the province.

The response from rural customers has been overwhelmingly positive and extremely gratifying. "They're not only enthused about their new privacy, but also very happy with all the enhanced services now available to them," says George Spencer, chairman of the ILS steering committee. "Farmers, being business people, require these services and really appreciate them."

Mr. Spencer is also proud of SaskTel's leading role in telecommunications technology. "We were first with fiber optics, and when we complete the ILS program we'll be the first to provide individual line service to every customer. Our people are excited about it and needless to say, so are our customers."

SaskTel's five-year, $264 million rural Individual Line Service program and the related $128 million central office modernization program are two major initiatives that began in 1986. The projects are among the largest ever undertaken by SaskTel. In late 1987, a further $133 million was committed to upgrade central offices in urban centres, bringing the company's commitment to upgrading its system to a total of $525 million by the mid-1990s.

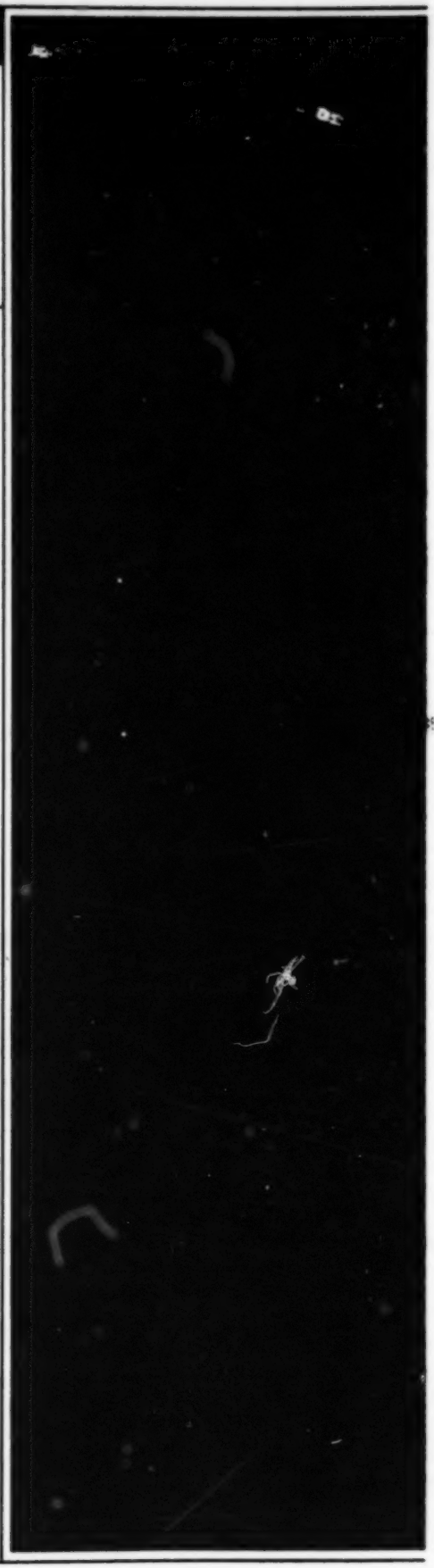
The ILS program involves converting the facilities of 73,000 rural, multi-party line customers to individual line service. At the end of 1987, a total of 105 telephone exchanges had been converted, and 23,000 customers had been provided with private line service.

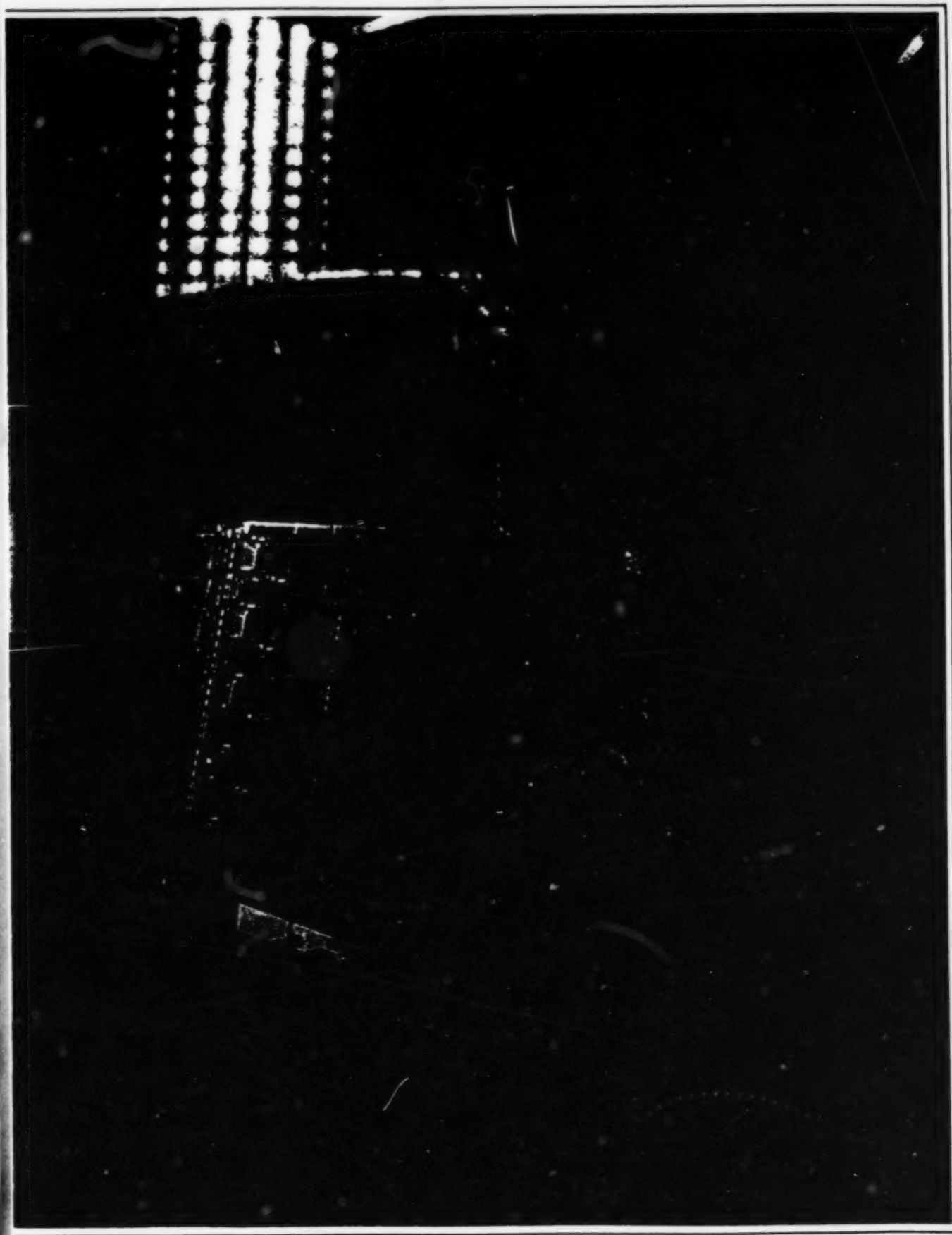
More than 15,000 kilometres of cable has been buried during the first two years of the program.

By early 1991, virtually every rural resident will be enjoying the benefits of a private line. These customers will be able to choose from the same wide variety of telecommunications products as customers in urban communities.

ILS is truly a mega project because of the millions of dollars involved and the dedicated teamwork required to stay on time and within budget. Every department is working together to ensure the program's success — from network planners and installation crews to employees who sell new products and services to rural customers.

The rapid deployment of digital switching systems continued as part of an accelerated program to modernize network facilities in smaller urban and rural areas throughout Saskatchewan. At year end, state-of-the-art digital systems had been placed into operation in 48 communities.





Party-line service nears the end of the line

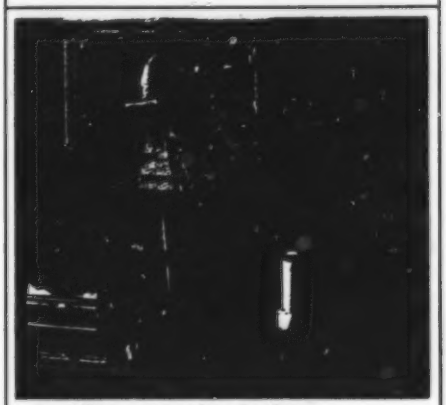
SaskTel is proud of the leading role it is playing in bringing modern telecommunications technology to thousands of rural customers. It's a tradition with deep historical roots. As early as 1924, the percentage of farmers with telephone service was greater in Saskatchewan than anywhere else in Canada. When the ILS program is completed in 1991, Saskatchewan will be the first province in the country to provide individual line service to every rural customer.

Party-line customers have responded positively to the change. Jacob Guenther, a Hague-area resident, is looking forward to ILS. He recalls some of the problems that took place when they first received telephone service in 1951 from the West Hague Rural Telephone Company. "Since applications for a telephone came faster than the lines could be built, it went all out of proportion. One winter we had as many as 28 households on one line."

In 1965 SaskTel assimilated the rural company and continually reduced the number of customers per line under system improvement programs. Still the privacy of conversations was a real concern. "A late night call would cause everyone on the line to wonder. Instead of guessing you would get up and listen in. You could count the number of inquisitive people by the number of clicks picked up by your receiver."

And there were other problems with multi-party line service. "Sometimes it caused hard feelings between farm neighbors when you asked them to vacate a line, although it might have been an emergency," Mr. Guenther said. Even in the early 1980s, some of the larger farms using computers found it difficult to access agricultural information in databases without the availability of a private line.

Like Mr. Guenther, Edith Hewson of Moosomin also recalls the lack of privacy on party-line systems. She refers to it as "rubbering" as it was called years ago. "For us prairie-ites, who grew to maturity enjoying one of the few indoor sports of the time (listening in on a party line), it was a study in hilarity."

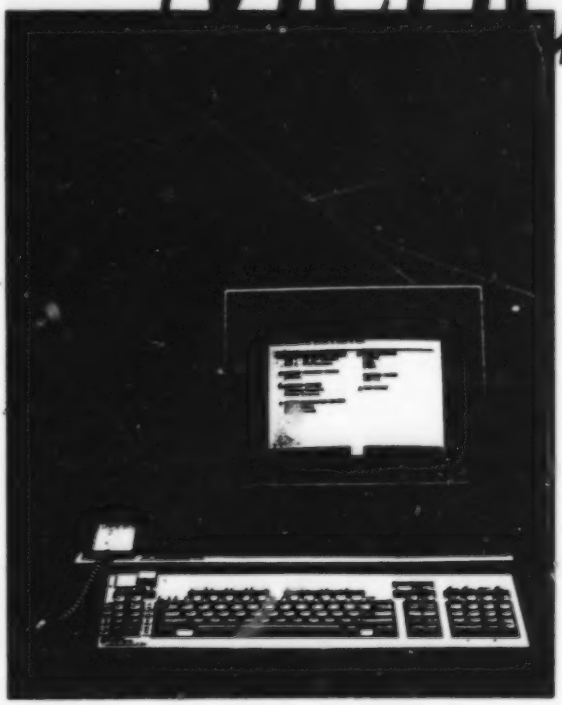


Installing private-line facilities.

People with party lines currently represent approximately 10 percent of SaskTel's customers. With the exception of a few customers in remote northern locations, all are located in rural areas and most have never had access to any other type of service. But the days of the party line are numbered as SaskTel continues to modernize its system to meet customer needs in the rural areas of the province.

As the ILS program continues over the next three years, party lines in rural Saskatchewan will continue to drift quietly into history, following the same route as the steam locomotive and the black-and-white television set.

Meridian DV-1



Integrated Communication Technology

Meridian DV-1 exemplifies the ultimate in integrated data voice systems. It's a combination of telephone, computer and data communications. DV-1 users at locations across the continent can be networked together for simultaneous voice and data conferences. And DV-1 allows all office communications to be carried over existing telephone wiring.

SaskTel

Nationwide Communications through Telecom Canada

SaskTel's traveling Telmart display.

Marketing programs successful

Besides the benefits of privacy, convenience and choice for rural customers, the ILS program has opened up many new marketing opportunities for SaskTel. New individual line customers can now choose from a large number of products previously unavailable to them — telephone answering machines, cordless telephones, hands-free speaker telephones, and telephones that can accommodate voice and data at the same time.

During the year, a colorful brochure describing a number of the new products and services was sent to new ILS customers. This was followed by a marketing program in which service representatives explained various equipment options, answered questions, and took orders.

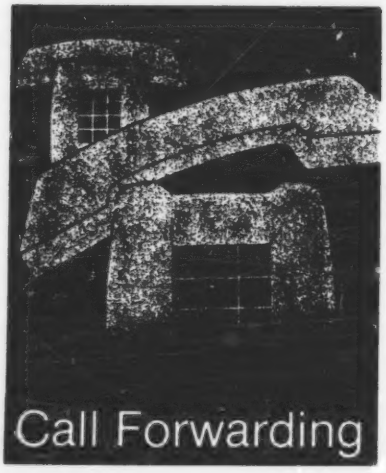
Sales teams also traveled across the province to individual communities to give rural customers a firsthand look at the wide choice of equipment now available to them. Sales figures so far have been impressive. For example, when the traveling Telmart display went to Tisdale, it attracted 500 customers and resulted in sales of more than $50,000. Many of these customers requested touch tone rather than the standard rotary-dial service. SaskTel's marketing objective in this regard is a ratio of 60 percent touch tone to 40 percent rotary-dial which, if achieved, will contribute significantly to increased revenue for the corporation.

Since these marketing strategies have been highly successful, they will be continued over the next few years. An added benefit is that revenues from the sales of new products and services will be used to help defray the costs of the ILS program — an average investment of $3,600 for each upgraded line.

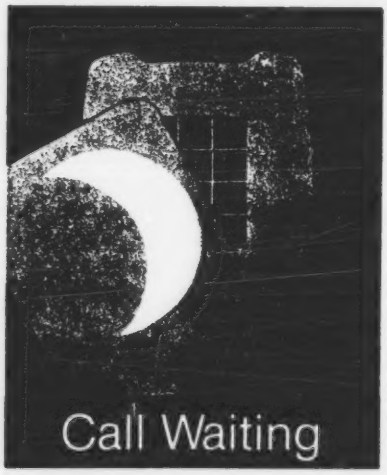
From step-by-step to bit-by-bit

In conjunction with the ILS program, SaskTel is replacing its older, step-by-step switching equipment with ultra-modern digital systems. Rural customers will be able to benefit fully from the technical advances of the new network services, most of which previously were only offered in larger centres.

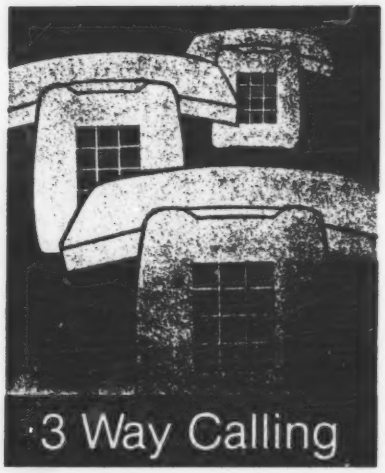
Among the new services is direct dialing overseas which allows customers to call more than 140 countries around the world without operator assistance. Customers will also be able to select from a variety of custom calling services. These optional features include:



- **Call forwarding**
  Incoming calls can be transferred automatically to any other telephone within the local dialing area. As calls are not left unanswered, it's a security feature as well.



- **Call waiting**
  When already on the telephone, a series of soft beeps announces another person is trying to call. This option means an end to busy signals and is a valuable feature for those with talkative family members.



- **Three-way calling**
  Three people at different locations can talk over the telephone at the same time. Three-way calling provides an efficient and practical way to conduct business or community projects.

- **Speed dialing**
  This permits abbreviated dialing of frequently called and emergency numbers. It's a real time-saver and a convenient way to make local or long distance calls.

Digital technology meets changing needs

Computer-driven digital systems are also extending a number of other services throughout the province, such as 800 Service and WATS (Wide Area Telephone Service).

The 800 Service allows businesses to provide toll-free numbers for their out-of-town customers. Different plans are available based on the geographical area desired — whether part of Saskatchewan, or all of Canada and the United States. Wide Area Telephone Service provides volume discounts to business customers for their outgoing long distance calls.

Another popular feature is Remote Call Forwarding. Out-of-town businesses are given local numbers for the convenience of their customers within the selected community.

Besides the availability of these convenient new services, digital systems have a number of other advantages. Customers have noticed that telephone conversations are clearer and sharper and that noisy circuits and crosstalk have practically disappeared. And since digital systems transmit signals using coded on-and-off pulses (or bits) like computers, they can accommodate data, video and voice messages with equal ease.

Looking ahead to ISDN

Just like the much-heralded "Information Age," the term ISDN (Integrated Services Digital Network) describes a bold concept with profound implications for telecommunications companies and the customers they serve.

In technical terms, ISDN is a sophisticated framework of standards for how telecommunications equipment will operate and how information will be transmitted. The DN portion of the acronym means that all information will travel as computer digits, which is the most efficient way to transmit information.

The real advantage for SaskTel is that ISDN will allow its customers to communicate better with each other — whether by voice, computer data,

image or text — through a single pair of copper wires, the basic network that's already in place. What may prove to be even more important is that ISDN will permit the simultaneous transmission of all forms of communication over these same lines.

The ongoing conversion to an all-digital network is part of SaskTel's evolution toward ISDN. SaskTel's second digital modernization program was announced in late 1987. Installation of digital equipment under this $133 million program will begin in 1988 and involves replacing older switching facilities in urban centres. When completed in 1995, SaskTel will realize its goal of having virtually an all-digital telecommunications network in place.

The network, the heart and soul of communications, has been quietly evolving — from the traditional method of transmission based on sound and electrical waves to transmission based on pulses of light and the digital language of computers.

This all-digital network concept, as opposed to the current mix of older analog facilities and new digital ones, will open the way for companies such as SaskTel to realize the true potential of an increasingly intelligent network which already reaches nearly every home and office. With such a network, for example, two or more people will be able to talk to each other, see each other on a television screen, and exchange data — all over the same telephone line.

ISDN is often referred to as the key that will open the door to universal, Information Age services. Full implementation of ISDN on a worldwide basis depends on many factors, but the most important are the needs and demands of the marketplace.

Keeping costs down

Cost reduction continued to be a major challenge throughout 1987. Combining and streamlining operations through a major realignment, initiated in 1986 and completed this year, have contributed to an overall reduction in operating costs.

Careful management of the corporation's resources has allowed SaskTel to improve not only the quality of customer services, but to generate new business growth while keeping expenditures down.

Increased use of computer technologies within many of SaskTel's departments substantially increased productivity and realized major savings. Computer applications are now used for a wide variety of tasks — keeping track of service orders; maintaining and repairing network facilities; storing customer records, including updating white and yellow page listings; and compiling data for budget and market information. And the list continues to grow.

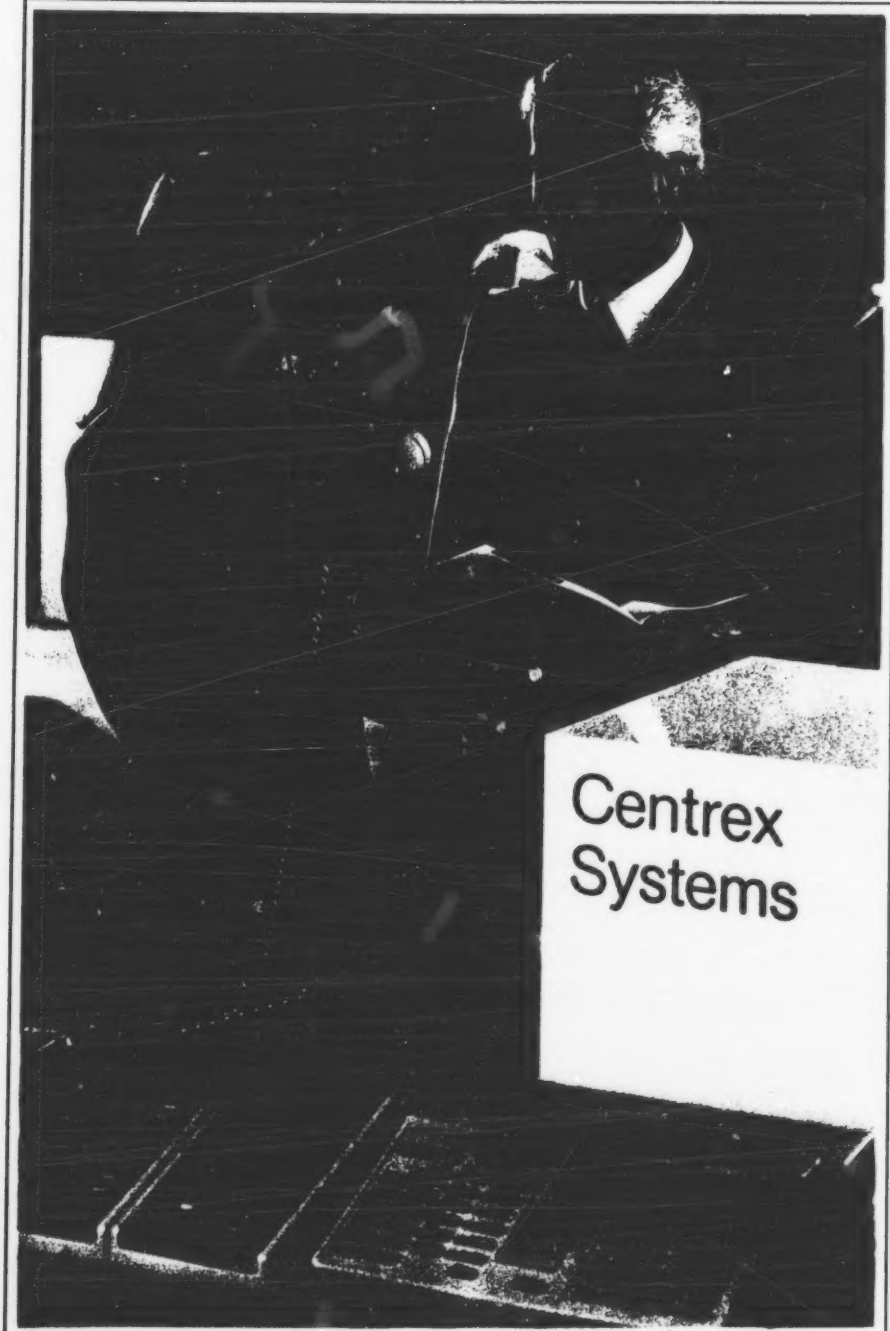
The increased use of personal computers and the introduction of new computer-based systems like MARTENS and CALRS have helped improve productivity while contributing to lower operating costs.

The MARTENS system consolidates and simplifies record-keeping by maintaining an accurate inventory of circuits, cables, and telephones in use. This new system maintains up-to-the minute records on which facilities are available and is able automatically to assign a telephone number to a customer at the same time as identifying the facilities closest to the site of the new installation.

With the CALRS system, paper records of trouble reports have been replaced with instant computerized circuit data. The automated reporting system tests lines and equipment and helps to decrease the time it takes to respond to customer trouble reports.

A new billing system, referred to as CRB+ (Customer Records and Billing), is currently being developed at SaskTel. It will consolidate a dozen different billing methods into one efficient system. Once the CRB+ system becomes fully operational in 1989, a new, fully itemized telephone bill will be one of the most obvious benefits to the 450,000 customers who receive statements each month.

New Business Centre opens in Regina



The SaskTel Business Centre in Regina.

In an increasingly market-driven environment, SaskTel strives to be the best provider of value-priced products, services and systems.

With this in mind, in October SaskTel officially opened its second new Business Centre, located in Regina's Cornwall Centre. Like the Saskatoon Business Centre at 119-4th Avenue South, the new store caters exclusively to business customers and is capable of meeting virtually every telecommunications requirement.

The new centre offers a complete range of the latest products. On display for businesses, no matter how large or small, are multi-line telephone systems, mobile radios, PBX switchboards, data terminals, printers and facsimile units. Training on leased or purchased equipment, along with helpful seminars, are available at the centre or can be conducted on the customer's premises.

A one-stop shop for all business needs, the centre emphasizes quality, service and dependability, and features state-of-the-art products and services designed to help customers stay ahead of the competition. All products on display are backed with province-wide service by skilled, experienced technicians.

The products and services on display are continually being reviewed to ensure they fully satisfy customer needs. In addition, the customer service objectives SaskTel has set for itself are constantly under review — from how service is provided to how it is maintained.

The new centres reflect SaskTel's goal of putting the customer first. Building customer loyalty, in the corporation's view, is the key to ensuring that good customer relationships established today will pay dividends both to customers and the company in the years ahead.

Success stories

Many of SaskTel's most successful new sales, including system upgrades, have taken place because the corporation responded quickly, outlining flexible service options, equipment choices, and pricing plans tailored to the client's requirements. These three stories provide an insight into the reasons why customers are pleased with the new, market-oriented direction SaskTel is taking.

Harry Nesbitt, a SaskTel communications consultant with Wilma Warner, Store Manager, for The Bay.

Hudson's Bay enthused with SaskTel service

The SaskTel connection with the Bay and Zellers stores in Saskatchewan demonstrates the high level of corporate success reached in customer relations. The stores were served by outdated, overworked and inefficient telephone systems. Harry Nesbitt, a SaskTel communications consultant in Saskatoon, approached The Bay on several occasions to talk about replacing its antiquated system in that city. He knew a new digital PBX would improve the store's performance in dealing with the public and suppliers, and in expediting in-house communications.

When Mr. Nesbitt talked to George Mallen, manager of communications planning for the Hudson's Bay Company, he first had to convince him that SaskTel had more than ample technical expertise to handle the job. He also had to show that the corporation was flexible enough to translate The Bay's needs into a cost-effective, province-wide telecommunications network.

The Bay decided that SaskTel could do the job. It signed a comprehensive agreement with the corporation to update all its systems and link the Saskatchewan stores to The Bay's national voice network through its communications hub in Winnipeg. The Bay was more than pleased with the result and their decision to go the SaskTel route.

Criteria for a new network

Eleven switchboards in The Bay and Zellers stores needed upgrading or replacement. SaskTel installed eight fully featured SL-1 PBXs and upgraded three of the existing electronic telephone systems. But the new network, complete with new equipment, had to prove less costly than the systems already in place. And the payback period could not extend beyond one year. Mr. Mallen had to show senior management that the new system would mean a lower monthly telephone bill.

Naturally Mr. Mallen was concerned about how SaskTel would react to an operating condition that meant lower revenues from long distance calls. He needn't have been. As SaskTel sales supervisor Barry Rutherford says, "We took a long-term view of the situation . . . we were in it to win a customer."

Accommodating and flexible

Throughout the negotiations, Hudson's Bay says that SaskTel was accommodating and flexible. According to Rosalind Argonza, communications planner at The Bay, SaskTel representatives were extremely receptive — they listened to what was said and quickly recognized what was wanted. She says that SaskTel representatives displayed a high degree of product knowledge and were clearly experts in the systems they were selling.

Full corporate support

Mr. Nesbitt had the full cooperation and support from SaskTel's senior management throughout the process. The Bay did not have to deal with one individual in Operations South and another in Operations North. "I saw my role as removing roadblocks," says John McGregor, general manager, systems sales and services, "even if it meant sidestepping some company practices."

SaskTel saved the Hudson's Bay Company a lot of money while providing equipment and services that are state-of-the art. Besides a satisfied customer, SaskTel was gratified with the realization that it had performed as well as any interconnect company. As Mr. Mallen says, "My preconceptions about SaskTel were wrong. Dealing with the corporation was a pleasure." ■

SL-1 helps Co-operators Group improve service and reduce costs

Glenn Vorrieter, Supervisor of Sales, National Systems Group, SaskTel (left) and Len McDonald, Facilities Manager for CDSL.

Co-operatives and credit unions have deep roots in Saskatchewan. Co-operative companies like the Saskatchewan Wheat Pool, Dairy Producers, Federated Co-op, Co-operators Life and Co-operators General Insurance Company are among the 35 member-owners of the Canada-wide Co-operators Group. When the Co-operators Group needed a major upgrade of its voice-data communications system linking its owner and client companies, it looked to SaskTel as a major contributor.

Co-operators Data Services Limited (CDSL) manages data processing, networks and office systems on behalf of Co-operators Group companies. It supplies computerized information access and management products and services to credit unions, banks, trust companies and insurance companies. In recent years, the telecommunications system had become obsolete in Regina and at other locations in Canada.

"We needed a telecommunications system which delivers three major types of application," said Bob Dunn, telecommunications manager at CDSL. "We wanted to improve our customer service, increase employee

effectiveness and efficiency, and control costs."

"We decided on the Meridian SL-1 system because it is, without a doubt, the best system for our needs," he said.

SaskTel implemented the cutover of CDSL's telecommunications system on Saturday, January 9, 1988. "I've been involved with telephone systems for the past 20 years, and our cutover was the smoothest, cleanest and most professionally conducted operation I have ever seen," says Mr. Dunn.

SaskTel worked with Co-operators Data Services using the National Systems Group concept. Glenn Vorrieter, SaskTel sales supervisor, explains: "The idea behind the National Systems Group is that Co-operators Data will have centralized planning here at SaskTel. It allows them to have a bit more control over activities with other telephone companies."

Improves service and efficiency

The SL-1 system also gives CDSL many other features, some of which are not available on other systems, that helps them to improve service and efficiency while reducing costs. Automatic Route Selection, for example, selects the least expensive available long distance route. Combined with its 16 OutWATS lines, Co-operators Data and SaskTel have managed to reduce CDSL's long distance costs.

Call Detail Recording is an SL-1 feature which permits the analysis of calling patterns. With many other systems, data from phone bills must be entered manually into the software used for analysis. However, with the SL-1, this information is stored at the switchboard and is available at any time.

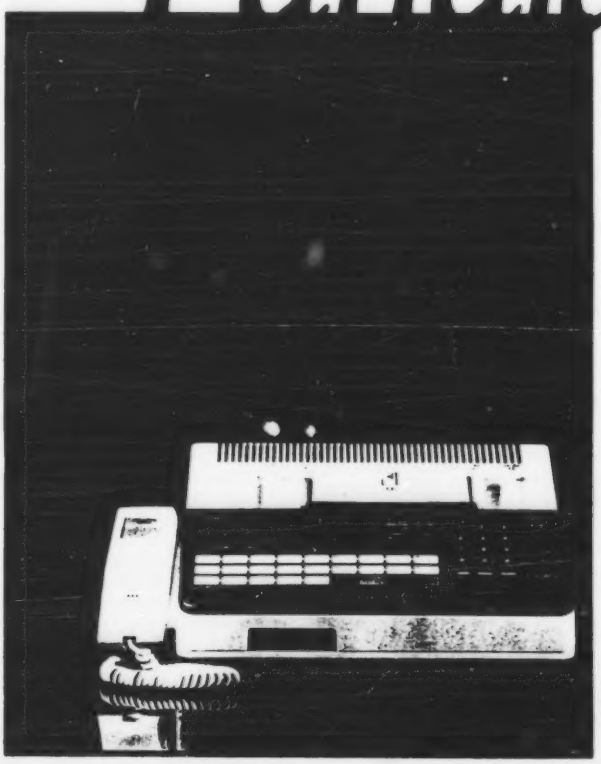
The SL-1 includes other features as well. Call Park allows a call to be parked in the switchboard and answered from any phone set. Phone sets with LEDs indicate the local from which a call originates. Special tones indicate if a transferred call is local or long distance.

SaskTel quality service

SaskTel has many years of experience installing and maintaining SL-1 systems across Saskatchewan. Currently, more than 125 are in operation. SaskTel has assigned service personnel, available 24 hours a day, for each system. Service and support of these systems is guaranteed well into the future.

"We're very pleased with the quality of service that we receive from SaskTel, and with the level of expertise they have in finding solutions to our technical problems," says Mr. Dunn.

Panafax



It's as good as delivering it in person

Panafax is fast; most transmissions take less than forty seconds. It's accurate, because the transmitted copy is an exact duplicate. And you can send and receive documents from anywhere in the world where a facsimile machine is in operation.

For more information on Panafax, call SaskTel toll free: 1-800-667-8654, or 1-800-772-0571.

SaskTel

Nationwide Communications through Telecom Canada

Putting out fires with FAX

SaskTel helps fight fires

1987 was a record year for forest fires in Saskatchewan. During the year SaskTel received an emergency request to supply Panafax machines to the Provincial Forest Fire Centre in Prince Albert. The response was immediate with the units installed and operational the same day the request was received.

Lightning starts fires. The Province of Saskatchewan's Fire Management Branch records and triangulates flashes of lightning using its direction finding equipment. A position analyzer plots a 200,000 ampere lightning bolt on a television-like screen at regional headquarters and a printer produces a hard copy. Hard copies of that information, with updated weather reports from the Provincial Forest Fire Centre, must be transmitted to district managers, initial attack crews, air patrols or others responsible for fighting forest fires. Transmission of data, quickly and accurately, to several locations at once is critical.

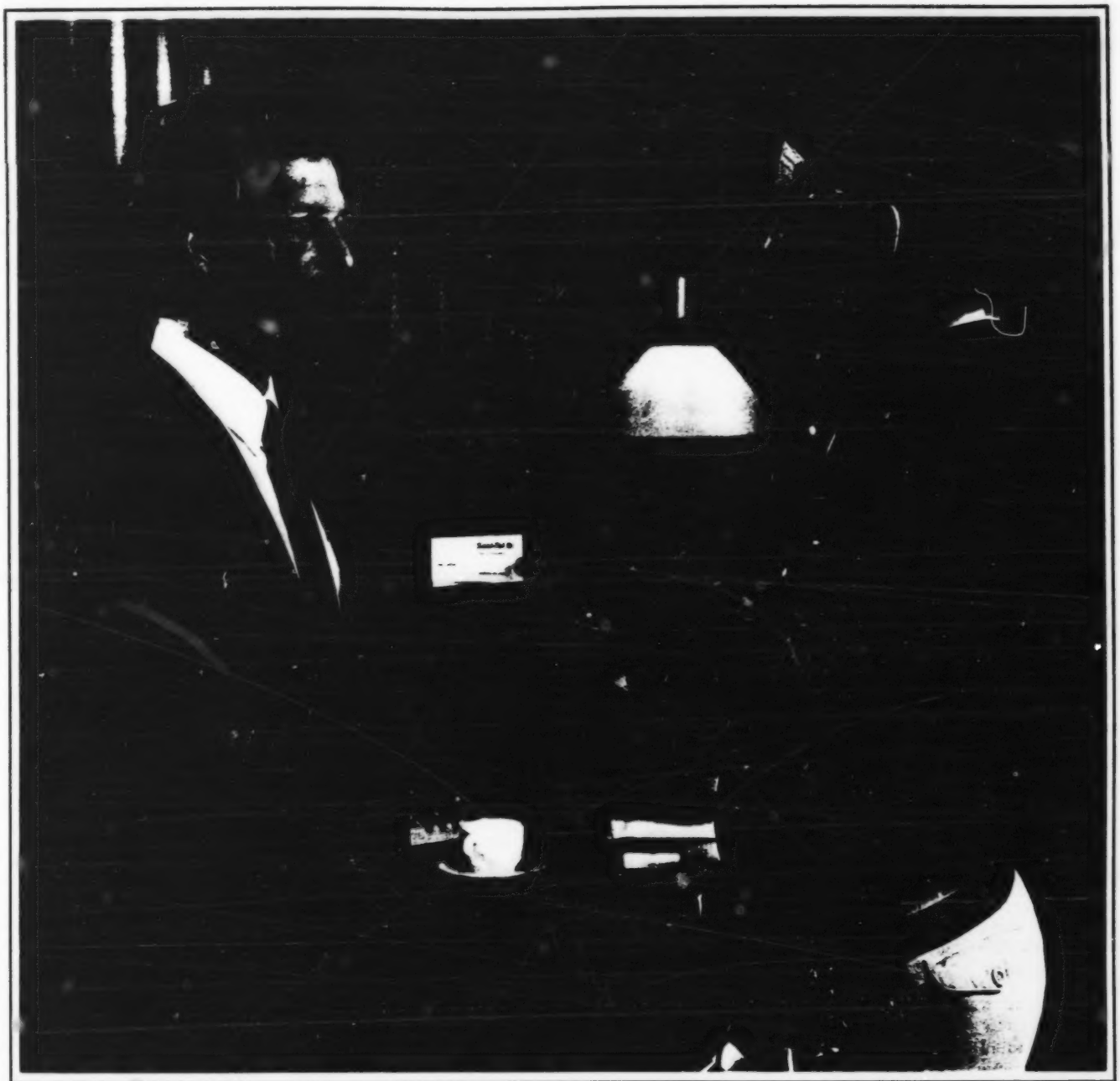
Quick response

The Provincial Forest Fire Centre in Prince Albert, during this record year for forest fires, called SaskTel with an emergency request — they needed eight Panafax machines. Gord Farmer, sales supervisor, Saskatoon, was ready. Rob Beattie, data consultant with the National Systems Group in Saskatoon had already been working on a Panafax proposal for the Prince Albert Forest Fire Centre. Now, the gravity of the situation meant that action would have to be taken right then. SaskTel responded to the request and immediately delivered four units to the Saskatoon airport where they were picked up by a special flight from the north. Four more machines were flown from Regina to Saskatoon, then driven to Prince Albert. A base station was set up, a training session held, and the system was operational — all in less than 12 hours from the time of the initial telephone call.

The Panafax units were instantly effective — so much so that the Fire Centre called SaskTel again. This time the request was for separate communications lines for Panafax transmission. Within 24 hours, new business lines were installed in remote communities across Northern Saskatchewan.

On the forefront with Panafax

Panafax units are now a vital element in the monitoring and control of forest fires in Saskatchewan. SaskTel is marketing these machines, which electronically transmit visual information over regular telephone lines, to business and government organizations across the province. "Customers are beginning to realize the full potential of a facsimile machine and how cost effective it is to own one", says Vern Phoenix, the product manager of data terminals in business development at SaskTel. "Fire control officers regard the machines as essential and look forward to the expansion of their network in 1988." ■



Meeting the challenge of change

The telecommunications industry is in the midst of an exciting time. In fact, it now finds itself at the very forefront of the information revolution. Rapid technological advances have made success dependent on meeting the challenge of adapting to change.

SaskTel an industry leader

It is a constant source of pride at SaskTel that the corporation has kept pace with advances in technology, and indeed has been a forerunner. As an industry leader, the corporation's efforts have resulted in a number of important "firsts".

These include recent firsts such as completion of the world's first major fiber optic transmission network in 1984; and the more recent rural ILS program, the first of its kind in Canada. These firsts are providing many benefits to the people of Saskatchewan.

As the Information Age takes shape and telecommunications companies around the world experience this period of rapid and profound change, SaskTel finds itself part of a global phenomenon.

The market is experiencing a convergence of technologies involving the traditional areas of communications, office automation, and data processing. This convergence is stimulating a growing market demand. The merging of telecommunications and computer technologies is central to this change, with voice, data, text and image being exchanged rapidly and effectively through the telephone system. The telecommunications industry is at the apex of the technologies triangle. And SaskTel is there as a leader.

The market is moving rapidly as SaskTel shifts away from a regulated industry to a free market environment. SaskTel is ready to respond to increased competition in all market segments, from sellers of equipment and competitive common carriers, to service providers who resell and share facilities.

Customer satisfaction is key to this response. As, Chris Elmer, SaskTel's vice president business development summed it up pointedly: "If we don't respond to what our customers want, and don't do it faster and better, then our competitors will be right there to take away our business." And SaskTel intends to be a leader, as well, in customer service.

Corporate Effectiveness Program

SaskTel has taken many steps to prepare for competition. The Corporate Effectiveness Program was undertaken to improve productivity, accountability and effectiveness in SaskTel's total operation. Each business sector continually reviews its operating methods to maintain existing revenues, develop new revenues and manage costs. SaskTel is intent on making the most of its prospects and its abilities to compete.

Defining the new direction

As part of SaskTel's response to its changing environment, a new mission statement was developed to define and clarify goals and objectives. The statement also ensures that the traditions of quality customer service, exceptional value, and returning a profit to the people of Saskatchewan will remain.

The mission statement is a guide for corporate planning. It defines the company's businesses, the services provided, and the markets served.

It is also a reference for SaskTel as it moves toward the future. The mission statement describes how the corporation conducts its business and the values essential to success. It also analyzes the corporate culture and communication structures. Most importantly, it creates a vision with which people in the corporation can identify, by providing an explanation of the direction in which the corporation must move and what must be accomplished to achieve its goals and objectives.

New initiatives

Consistent with the new mission statement, SaskTel explored several options in other areas during the past year including the possibility of a partnership that would allow SaskTel to participate in the computer services industry.

Internally, a new marketing division has been established to serve better SaskTel's largest customers, currently numbering approximately 2,000. As a compact unit, the new marketing division is capable of a more flexible and timely response to customers' needs in the competitive marketplace, thus providing better service to customers. The new division will be positioned to compete in the multi-line and PBX market. It will offer integrated solutions to business customers and meet the expected network competition, while implementing a more market-oriented approach to doing business and a "customer first" philosophy.

A personal commitment

Consistent with the goal of customer satisfaction, is a continued emphasis on customer service and support. One such example is the Signature Service program which enhances SaskTel's current business relations with customers. In this program, technicians leave a personally signed business card with business customers. The card reflects the pride and sense of responsibility for which SaskTel employees have long been known.

The program also promotes customer satisfaction because customers are given a SaskTel contact with whom they are familiar and who has prior knowledge of their particular communication needs. Ongoing surveys, conducted since the introduction of the Signature Service program in May, have shown a high degree of customer satisfaction.

Other steps to improve the corporation's competitive position include increasing sales efforts to replace obsolete products and signing customers to long-term contracts to ensure market stability .

All of these measures are consistent with the mission statement and reflect SaskTel's determination to succeed in this new, challenging environment. For the corporation to fulfill its mission, it will have to function efficiently as a basic telecommunications utility within Saskatchewan, while competing effectively for customers in open markets. ■

The SaskTel mission

Our mission is to be the leader in bringing the benefits of the Information Age to the people of Saskatchewan.

We are the principal marketer and supplier of a range of voice, data, text and image products, systems and services designed to meet the needs of our customers. Our membership in Telecom Canada enables us also to extend these services throughout the nation and connect our customers to the rest of the world.

Increasingly, on a selective basis, we will compete in other related areas such as international consulting, office automation and computer services. Through association with other organizations, we will also participate in telecommunications research and development and equipment manufacturing for the benefit of the province.

In our business, we will be cost-effective, provide exceptional value, and return a profit.

More than ever before, we must be capable of changing ourselves to meet the challenges of an ever-changing marketplace:

- When necessary, we will create new organizational structures to support our competitive thrusts.
- We will listen more attentively to our customers, and work closely with them to plan and develop solutions tailored to their needs.
- We will uphold our tradition of technological leadership and quality in the products, systems and services we provide, in the tools and skills that support their delivery, and in the evolution of our network.

We believe the following values to be essential to the fulfillment of our mission:

- Our future depends on our ability to foster a strong innovative culture within SaskTel. We believe in individual initiative, prudent risk-taking and the need to create a strong bias for action in every endeavor.
- We must be easy to do business with and quick to deliver. We must not let our own problems keep us from solving those of our customers.
- Our competitive environment demands that we communicate openly, provide mutual support, and cooperate freely, both within our own groups and across organizational lines.
- We must provide service on a cost-effective basis. We recognize that, in this way, each of us can contribute to the financial health of the corporation.
- We are committed to the highest standards of honesty and fairness in our dealings with customers, business partners, the public and each other.
- We are proud of our heritage of service to Saskatchewan, our high standards of professionalism and our leadership in an increasingly competitive environment.

I am pleased to have provided service to your telecommunications equipment.

My signature ensures that I am available to assist you if you need anything further from SaskTel.

Highlights

SaskTel International

SaskTel International, the international marketing arm of the corporation, in 1987 continued to assess the telecommunications needs of other countries and assist in the development of state-of-the-art systems around the world. Negotiations on a number of telecommunications projects, including those in Tanzania, Nigeria, Israel, the United States and the province of Ontario were either completed or under way at year end.

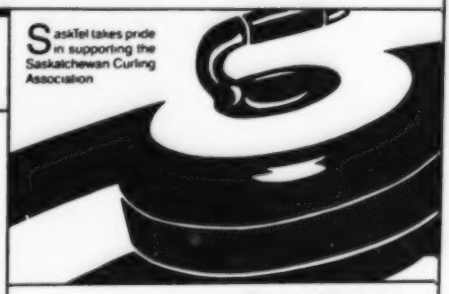
Through its membership in Canadian Communications International (CCI), SaskTel International shared in the benefits from the sale of $540,000 worth of telecommunications equipment to Harbin, a city in the Heilongjiang Province, of the People's Republic of China.

SaskTel International as a member of CCI also took part in engineering consultations, feasibility studies, market surveys, equipment sales and installation, and technical training on a worldwide basis. Some of the locations involved were China, Central America and the Caribbean.

Rate adjustments

The corporation increased its rates for a number of selected telecommunications services in December. Even with the five percent increase in basic monthly rates for residential and business services, the first since 1983, customers continue to benefit from rates which are among the lowest in Canada. Rates for a number of other items, such as service connection charges and yellow and white page advertising, also increased.

These increases follow an average five percent reduction in long distance rates for out-of-province calls that became effective in August.


SaskTel takes pride in supporting the Saskatchewan Curling Association
SaskTel
Nationwide Communications through Telecom Canada

Corporate sponsorship

During 1987 SaskTel continued a long-standing commitment to the communities and organizations it serves. Since SaskTel is in business in virtually every community across the province, the company recognizes that it has an opportunity to contribute towards the improvement in the quality of life throughout Saskatchewan — both through the active involvement of employees in the 63 communities where they live and work, and through support for community activities.

SaskTel contributed more than $300,000 to scores of non-profit and charitable organizations in 1987. These contributions are divided into three categories — community relations, education and athletics, and civic and cultural.

Besides financial contributions to federated, provincial and local fundraising drives, such as United Way campaigns, and to numerous community groups, the corporation provided assistance to civic and cultural organizations, as well as grants and equipment to educational institutions. In addition, SaskTel provided $50,000 to offset telecommunications costs for the 1987 Western Canada Summer Games and pledged $250,000 to help sponsor the 1989 Canada Games on behalf of all Saskatchewan's crown corporations.

Buy Saskatchewan

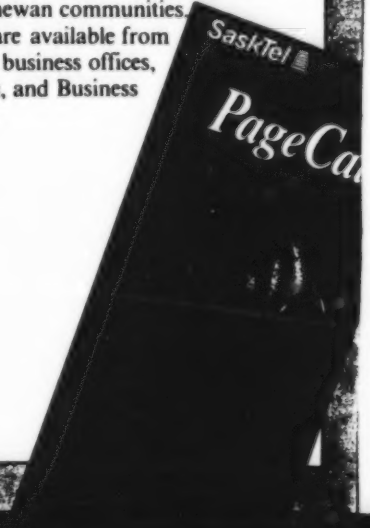
Supplier development at SaskTel means establishing a group of Saskatchewan firms willing to supply goods and services required for the corporation's various operations. In conjunction with the Buy Saskatchewan program, the approach initiates employment and helps keep Saskatchewan dollars in Saskatchewan.

"By working with us to improve their products, they create "state-of-the-art" goods. SaskTel's assistance helps our suppliers market their products throughout Canada and internationally as well," says Gordon Beck, SaskTel's director of the Buy Saskatchewan program.

PageCall

Inexpensive, and compact, pagers are a great way for people on the move to keep in touch. In days gone by, the unmistakable "beep-beep" of a pocket pager in a crowded room meant there was a doctor in the house. Today, however, pagers are everywhere — on the belt of a service technician, in the pocket of a real estate salesperson, or in the purse of a newspaper reporter.

Although available from SaskTel since 1976, an exciting new PageCall product line, that includes a digital PageCall network package, was introduced in 1987, making these units even more versatile than before. PageCall service is now offered in 13 Saskatchewan communities. Details are available from SaskTel business offices, Telmarts, and Business Centres.



SaskTel's ILS program has provided many opportunities for Saskatchewan contractors. For example, most of the cable for the program is being installed by Saskatchewan-based businesses. Contractors in Fort Qu'Appelle and Weyburn built small building enclosures for telecommunications equipment, a Kronau construction firm prepared building sites, and a Humboldt firm now manufacturers ventilation fans for SaskTel buildings. Other firms, such as Canada Wire and Cable in Weyburn, Northern Telecom in Regina and Saskatoon and Inventronics in Moose Jaw, have also received contracts.

AutoPhone network expands

SaskTel's AutoPhone network expanded during 1987 to include 19 new coverage areas for a total of 44 coverage areas. Now AutoPhone customers can make calls from their vehicles almost anywhere in Saskatchewan — from Prince Albert to the United States border.

AutoPhone is a mobile-radio system that reaches beyond the urban confines of cellular mobile phones and is compatible with the General Mobile Telephone Service widely used throughout Canada and the United States. Available at SaskTel Business Centres, AutoPhone can be leased or purchased.

SaskTel's mobile communications group established a new procedure that allows customers to report any problems with their mobile telephones by calling a toll-free telephone number (1-800-667-9993). "By providing one number for all trouble reports, customers receive more efficient, personalized service. Customer satisfaction is the bottom line," says Tom Wood, supervisor - design, provisioning and technical support in SaskTel's mobile communications group.

SmartTalk introduced

SmartTalk is a new two-line telephone for small business customers. Features include intercom, speakerphone, 16-number speed dial and memory capabilities.

Up to eight SmartTalk sets can be linked to an office system. A digital display keeps track of the status of every phone and line within the system. Larger multi-line and PBX customers who want to departmentalize their operations will also appreciate the convenience of the two-line SmartTalk.

Envoy

Canada's Largest Public Electronic Messaging Service

Envoy 100 is the most reliable, versatile, affordable messaging service in the country. Envoy has special services like Envoy Script (for frequent messaging between the same locations) and Envoy Post (combines the power of postal service delivery to virtually any business or household in North America.) All this, using just a telephone and a standard office terminal.

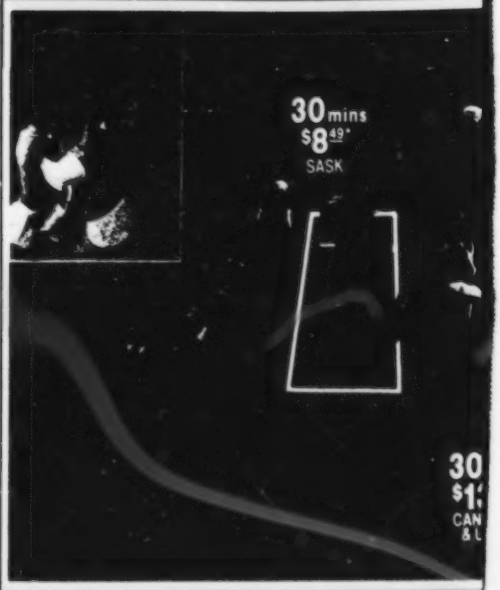
SaskTel

Nationwide Communications through Telecom Canada

Between Friends

Between Friends is a new service that allows customers to purchase 30 minutes of calling time that can be applied to one or more toll calls. The calls must be direct-dialed, and take place between 6 p.m. and 8 a.m., from Monday to Saturday or all day Sunday.

Two plans are available. The Saskatchewan plan provides 30 minutes of toll calling anywhere in the province for $8.49 per month; and the Canada-U.S. plan provides 30 minutes of toll calling to anywhere in Canada or the United States (except Alaska and Hawaii) for $13.00 a month.



Telecommunications services for special needs

A program to upgrade and expand telecommunications services for individuals with special needs was implemented in 1987. Effective August 1, SaskTel began operating a relay service previously handled by Services for Hearing Impaired Persons (SHIP). The corporation also assumed responsibility for the administration and provision of special telecommunications equipment previously handled by the Saskatchewan Aids to Independent Living (SAIL) program. A nominal monthly charge of 15 cents per line has been assessed to all telephone customers in the province to cover the costs of the program.

Under the program, SaskTel loans telecommunications devices (TDDs) to registered hearing-impaired persons. As well, SaskTel provides discounts of 50 percent on long distance calls made by registered TDD users to points within Saskatchewan and throughout Canada.

The program also includes a 50 percent discount on volume control devices for registered hard-of-hearing customers and provides for the loan of artificial larynx units to registered speech-impaired persons. In addition, SaskTel now handles the administration of other special telecommunications devices used by motion-impaired persons, such as hands-free phones, automatic dialers, and lightweight headsets which are supplied without charge.

Pioneers celebrate 40 years of service

Saskatchewan Chapter 59 Telephone Pioneers celebrated its 40th anniversary on October 14, 1987. The Pioneers in Saskatchewan are deeply committed to many community service projects, especially those concerning individuals who have special needs.

The Pioneers are currently involved in more than 35 community projects. As in previous years, many of the members gave generously of their time and talents to help make Saskatchewan communities better places in which to live and work.

Telephone Pioneers of America

Community involvement

Like members of the Telephone Pioneers, many individual SaskTel employees were involved in community activities throughout the province during the year.

Significant contributions were made by SaskTel employees in a wide range of volunteer projects — from answering telephones at Telemiracle and canvassing for the United Way, to advising young entrepreneurs in Junior Achievement, coaching hockey and baseball teams, and participating in cultural events and service clubs.

iNet 2000

iNet 2000 is an information management service which is becoming an increasingly important factor in the electronic office. This gateway service provides simplified access to information databases, electronic messaging, and data conferencing, and other information management features.

Currently, through iNet 2000, customers can access more than 1,700 databases containing information from educational resources to science trivia games. Once customers retrieve the required information, iNet 2000's features can be used to edit, record and electronically file the information or send it to clients and colleagues using electronic messaging. In addition, printed messages can be sent to any business or household in Canada via EnvoyPost or EnvoyCourier.

80 years of service

Created by an act of the Saskatchewan legislature in 1908, SaskTel will celebrate 80 years of service to the people of Saskatchewan on June 12, 1988.

Providing telecommunications services throughout a province the size of Saskatchewan, with its widely scattered population and diverse terrain, has been a continuous challenge for eight decades.

The ongoing dedication and determination of SaskTel employees over the years to offer the best in communications has paid off. Saskatchewan residents today enjoy one of the country's most advanced telecommunications systems. A wide range of quality services continue to be provided at rates which remain among the lowest in Canada.

80 YEARS
1908 - 1988

800 Service expands

More and more Saskatchewan businesses throughout the last few years have selected 800 Service as a cost-effective way to strengthen their marketing efforts. The 800 Service, which provides toll-free calling to customers, can be purchased for specific geographical areas in Saskatchewan, Canada, and the United States.

A proven business tool, 800 Service can be used to expand or create new markets, improve customer service, increase advertising response, reduce sales costs, and test new markets.

An 800 Service directory, listing some 10,000 toll-free numbers in Canada and the United States, is available at a nominal charge from SaskTel business offices, Telmarts, and Business Centres.

900 Service

The first customer application of a new mass calling service took place in 1987. Called 900 Service, it allows businesses to sponsor public opinion polls and conduct market research.

This service has the ability to handle a high volume of calls in a short time period. It can also help businesses sell products, promote special events, advertise to target audiences, and promote recorded public service announcements.

New information number

The number for directory assistance was changed from "113" to 1-555-1212 in August. The change was made to facilitate the merging of the local and intra-Saskatchewan directory assistance service and to conform with North American standards.

Last year the corporation's directory assistance operators handled more than 21 million calls. SaskTel is the only member of the nation-wide Telecom Canada group which doesn't charge for directory assistance services.

Training programs help employees stay ahead

Recognizing that employees are its most important asset, SaskTel placed an increased emphasis on training and retraining programs during the year.

During 1987, SaskTel invested $9.5 million helping employees keep up-to-date with today's changing technologies and preparing them for even more demanding roles in the years ahead. More than 12,800 person-days of training took place during the year as 5,474 students attended one or more of the 112 courses provided throughout 1987.

In addition to in-house training, more than 500 courses were completed by employees under the corporation's out-of-hour Educational Assistance Program. The company reimburses employees for tuition fees for educational courses completed outside of regular working hours.

We're Absolutely Sure

It took an absolutely amazing effort, but a group of eight employees won SaskTel's first "We're Absolutely Sure" monthly award for outstanding customer service. The team of eight consisted of Regina-based lineman Jake Hodel and cablemen Roger Wagner, Bob Thompson, Dan Agar, Doug Dale, Terry Betteridge, Arnie Janz and Dennis Metz. They worked almost non-stop from 8:00 a.m. on August 5 until 5:00 p.m. the following afternoon to restore service following two cable cuts affecting some 550 customers—a fine example of a job well done.

The "We're Absolutely Sure" program was introduced in 1987 to formally acknowledge outstanding achievements in customer relations by SaskTel employees. All employees have been encouraged to nominate fellow workers for the "We're Absolutely Sure" award. Winners are presented with a certificate and a gift.

Financial highlights

The 1987 financial statements which follow reflect sustained growth in operating revenues and restraint on operating expenses resulting in record earnings and a stable financial position for the corporation.

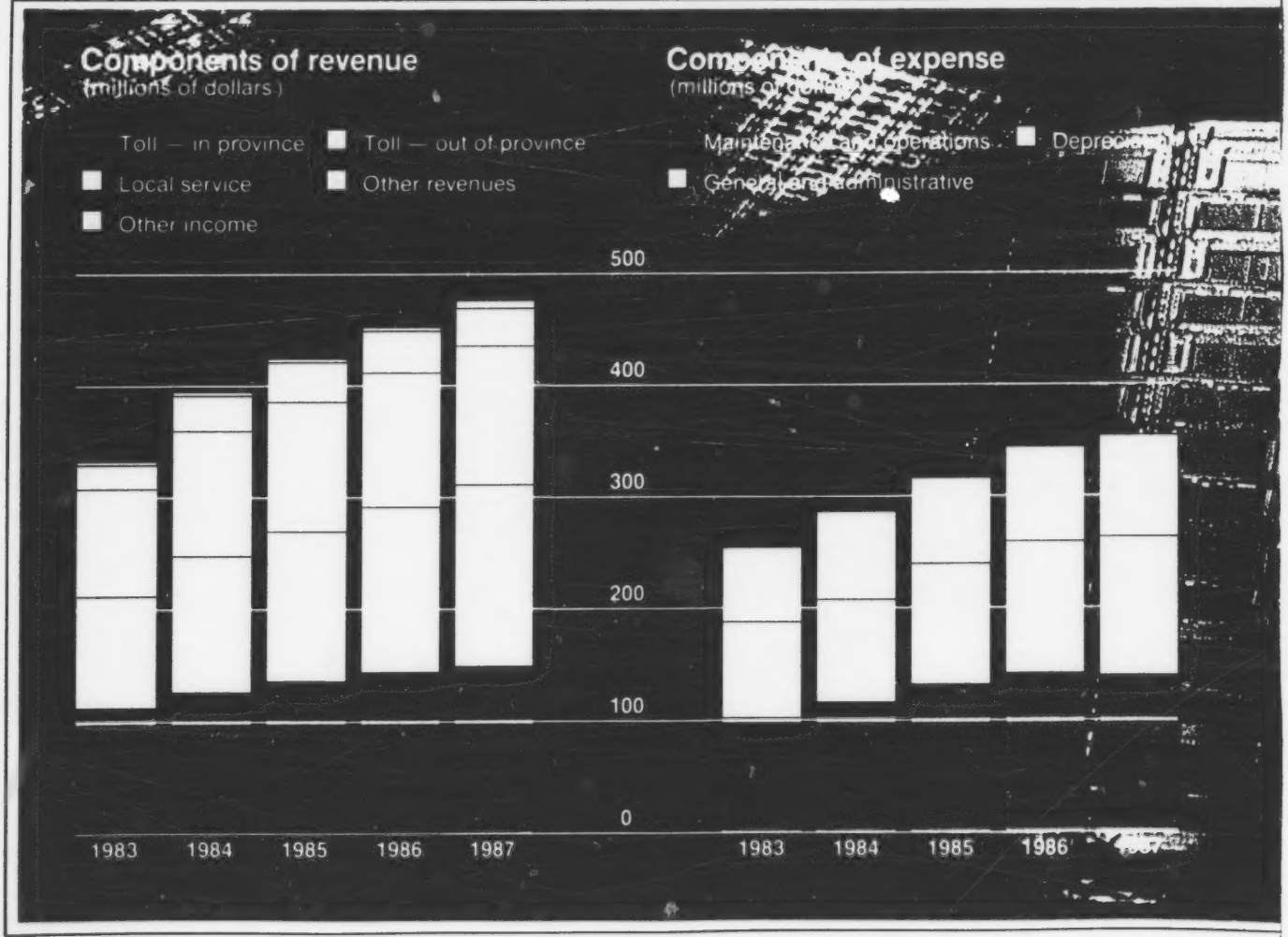
Operating revenues for 1987 totalled $469.5 million, up $19.9 million or 4.4 percent over 1986. The increase was primarily due to volume growth and increased participation in out-of-province settled revenues, partially offset by reduced revenues from cable television services. Total operating revenues were reduced by a provision for uncollectibles of $2.7 million.

Long distance revenues of $311.9 million increased by $19.5 million or 6.7 percent over 1986. In-province calling grew $5.3 million or 3.7 percent, with out-of-province toll revenues increasing $14.2 million or 9.5 percent.

Local service revenues, consisting primarily of customer equipment rentals, service connection charges, public telephone revenues and local private line services totalled $125.2 million in 1987, an increase of $3.8 million or 3.1 percent over 1986.

Other operating revenues amounted to $35.2 million, down $2.7 million or 7.1 percent over 1986. This decrease is due to reduced cable television revenues resulting from the sale of the majority of the distribution systems near the end of 1986. Excluding cable television revenues, other operating revenues grew $2.8 million or 9.8 percent over 1986. Included in this revenue category are directory advertising, building and other rent revenues, cable television services, tier sales revenue and customer late payment charges.

Operating expenses for the year amounted to $357.0 million, an increase of $10.0 million or 2.9 percent over 1986. Components contributing to this increase were added depreciation charges of $4.7 million and additional general and administrative costs of $6.2 million, partially offset by a slight reduction in maintenance and operations costs of $0.9 million.



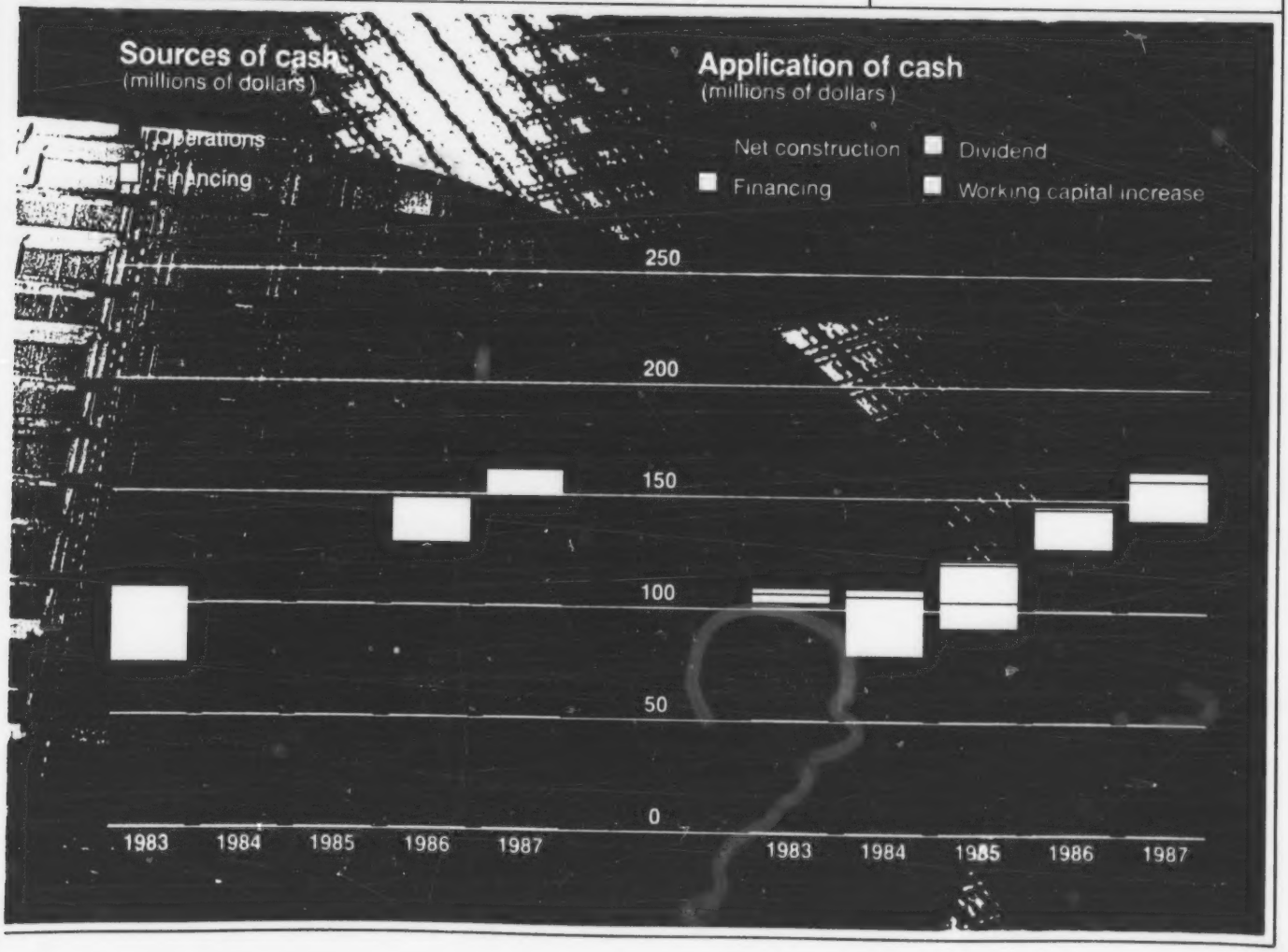
The increases are attributable to increased telephone plant in service and continued efforts to develop mechanized systems in preparation for market competition. The freeze in public sector wages and continued hiring restraint have partially offset these increases, contributing to the overall growth of 2.9 percent in operating expenses.

Other income of $8.5 million was up $3.8 million or 78.8 percent over 1986 primarily due to the first full year's finance income from the sale of the coaxial cable distribution systems and the Cornwall Centre land.

Interest and related costs, net of interest charged to construction and earnings on sinking funds and temporary investments, amounted to $70.5 million, a decrease of $0.3 million or 0.5 percent over 1986. Lower interest and other charges, due to the recovery of the Canadian dollar in relation to the U.S. dollar, more than offset the increased debt servicing costs for newly acquired debt.

Net earnings for the year of $50.5 million represents a 5.6 percent rate of return on average capital employed, as compared to a rate of 4.3 percent in 1986. One half of the net earnings for 1987 has been declared as a dividend payable to the Crown Investments Corporation of Saskatchewan.

Cash flow from operations, financing and construction activities in 1987 resulted in a $2.3 million decrease in our cash position at year-end. Cash generated by operating activities is up $16.2 million over 1986 and net construction expenditures increased $12.6 million or 9.7 percent over 1986. As a result, the corporation's self-financing ratio on net construction expenditures is 88 percent for 1987 compared to 91 percent in 1986. Financing activities consisted of total borrowings of $34.4 million, $20.8 million in the form of short-term notes payable to the Province of Saskatchewan and $13.6 million long-term debt through the Canada Pension Plan. Cash was disbursed for repayment of existing long-term debt, improving the corporation's debt equity ratio to 74.1 percent from 76.6 percent at the end of 1986. A dividend of $18.3 million was also paid to the Province of Saskatchewan.



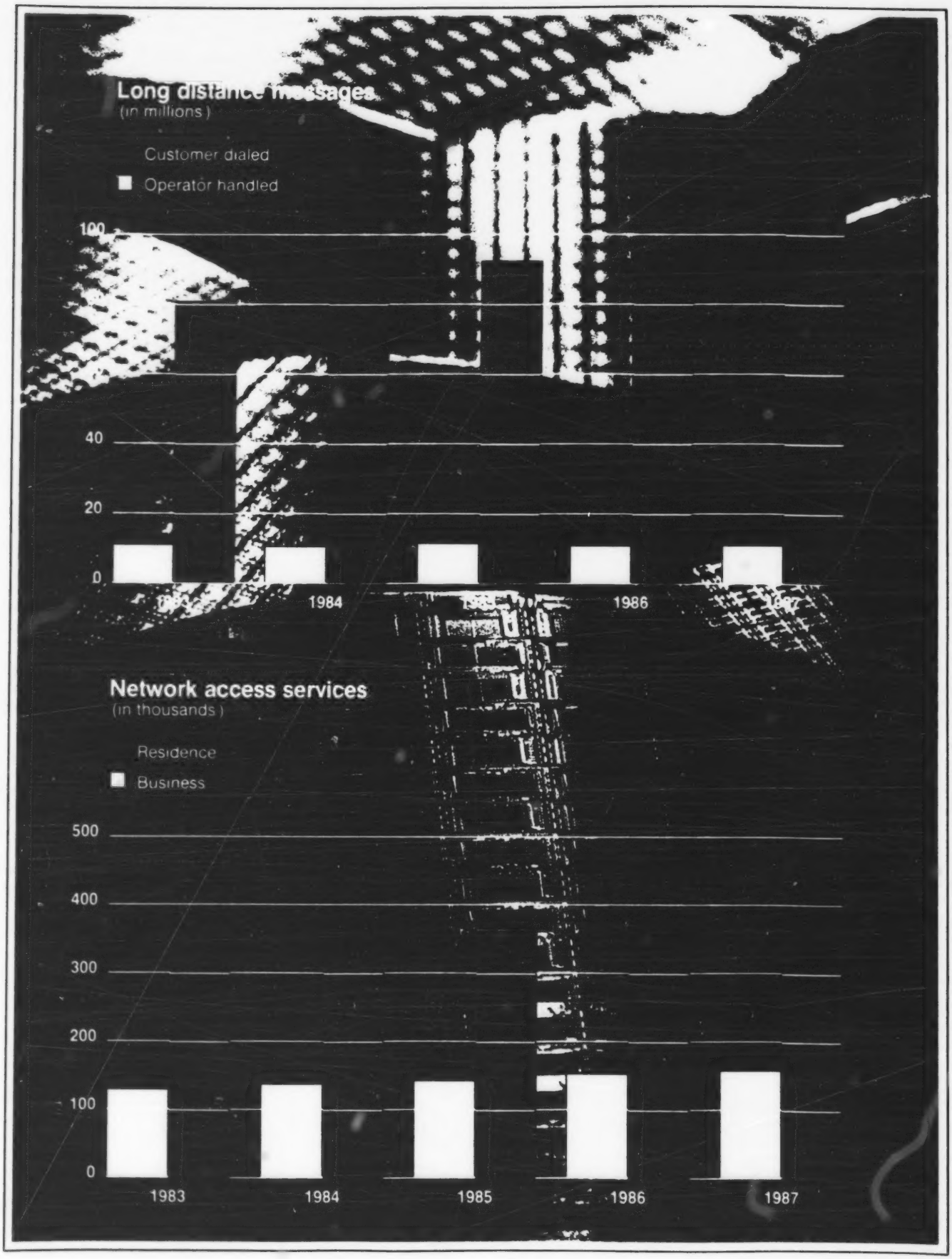
Five-year record of service

For the year ended December 31

	1987	1986	1985	1984	1983
Network access services **	**531,929**	522,674	508,836	497,483	484,538
Originated long distance Messages (in thousands)					
Telephone	**98,827**	94,768	91,561	86,177	82,994
Data, and other voice services	**18,345**	15,931	12,802	10,208	8,931
Total messages	**117,172**	110,699	104,363	96,385	91,925
Finance (in thousands of dollars)					
Operating revenues	**$ 469,548**	$ 449,622	$ 423,678	$ 392,021	$ 330,418
Operating expenses	**357,048**	347,033	318,194	287,705	255,533
Other income	**8,542**	4,776	3,161	2,701	2,118
Interest and related costs	**70,502**	70,845	71,661	71,417	65,029
Net earnings	**50,540**	36,520	36,984	35,600	11,974
Dividend	**25,270**	18,260	18,492	17,800	5,987
Gross construction expenditures	**153,515**	144,575	108,768	93,951	116,649
Property, plant and equipment *	**1,357,622**	1,301,163	1,260,355	1,192,832	1,132,965
Long-term debt — gross *	**772,140**	780,872	760,385	752,406	714,741
Financial ratios					
Return on average capital employed	**5.6%**	4.3%	4.4%	4.3%	1.5%
Debt as a percent of year-end capital *	**74.1%**	76.6%	77.7%	79.3%	81.2%
Internally generated funds as a percent of net construction expenditures	**87.8%**	91.1%	107.7%	125.6%	72.8%
Employees and payroll					
Number of employees *	**4,508**	4,504	4,458	4,382	4,400
Salaries earned (thousands of dollars)	**$ 156,169**	$ 156,794	$ 147,908	$ 138,528	$ 131,946

** Represents each working facility having primary connection to our network as at December 31

* At December 31

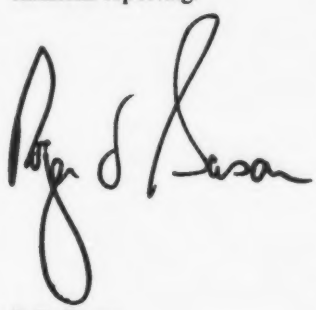

Long distance messages
(in millions)
Customer dialed
Operator handled
100
40
20
0
1984
1986
Network access services
(in thousands)
Residence
Business
500
400
300
200
100
0
1983
1984
1985
1986
1987

Management's responsibility for financial statements

The financial statements which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been examined and approved by the Board of Directors. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, an organization structure that segregates duties, and a comprehensive internal audit program. These measures provide reasonable assurance that transactions are recorded and executed in compliance with legislation and required authority, that assets are properly safeguarded, and that reliable financial records are maintained.

The Board of Directors fulfills its responsibility with regard to the financial statements principally through its Audit Committee, consisting solely of outside directors, which meets periodically with management as well as with internal auditors and the external auditors. The latter have free access to this committee to discuss their audit work and their opinion on adequacy of internal financial controls, and the quality of financial reporting.



R.E. Bason
Vice President
Finance and Corporate
Development

Regina, Saskatchewan
March 3, 1988

Auditor's report

To the Members
of the Legislative Assembly
Province of Saskatchewan:

We have examined the consolidated statement of financial position of Saskatchewan Telecommunications as at December 31, 1987 and the consolidated statements of operations, and retained earnings and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the year ended December 31, 1986 were examined by another Chartered Accountant.

Touche Ross & Co.

Chartered Accountants

Regina, Saskatchewan
February 18, 1988

Consolidated statement of operations

For the year ended December 31

		1987	1986
		(Thousands of dollars)	
Operating revenues	Long distance service	**$ 311,853**	$ 292,377
	Local service	**125,216**	121,395
	Other	**35,171**	37,865
	Uncollectible operating revenues	**(2,692)**	(2,015)
		469,548	449,622
Operating expenses	Maintenance and operations	**139,377**	140,278
	Depreciation (Note 2)	**93,001**	88,288
	General and administrative	**124,670**	118,467
		357,048	347,033
Net operating revenue		**112,500**	102,589
	Other income	**8,542**	4,776
		121,042	107,365
Interest and related costs (Note 3)		**70,502**	70,845
Net earnings		**$ 50,540**	$ 36,520

See accompanying notes

Consolidated statement of retained earnings

For the year ended December 31

		1987	1986
		(Thousands of dollars)	
Retained earnings	Beginning of year	**$ 209,746**	$ 191,486
	Adjustment to sinking fund equity (Note 2)	**2,705**	—
		212,451	191,486
Net earnings		**50,540**	36,520
		262,991	228,006
Dividend		**25,270**	18,260
Retained earnings	End of year	**$ 237,721**	$ 209,746

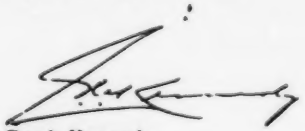
See accompanying notes

Consolidated statement of financial position

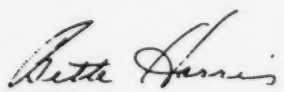
As at December 31

		1987	1986
		(Thousands of dollars)	
Assets	Property, plant and equipment (Note 4)	$ 835,989	$ 787,589
	Investment -- Telesat Canada (Note 5)	999	999
	Current Assets		
	Cash	1,530	3,803
	Accounts receivable	71,340	67,118
	Inventory for resale	6,044	4,812
	Prepayments	5,393	5,546
		84,307	81,279
	Investment in leases (Note 6)	16,655	15,475
	Notes receivable (Note 7)	32,933	34,478
	Deferred charges (Note 8)	33,581	54,663
		$1,004,464	$ 974,483
Liabilities and province's equity	Long-term debt (Note 9)	$ 647,240	$ 667,406
	Province's equity		
	Retained earnings	237,721	209,746
	Current liabilities		
	Accounts payable	38,009	39,822
	Notes payable (Note 10)	30,800	10,000
	Interest accrued	16,617	16,228
	Dividend payable	25,270	18,260
	Service billed in advance	6,560	5,463
	Current portion of long-term debt (Note 9)	2,247	7,558
		119,503	97,331
		$1,004,464	$ 974,483

Approved by the Board



Garth Kennedy



Bette Harris

See accompanying notes

Consolidated statement of changes in cash position

For the year ended December 31

		1987	1986
		(Thousands of dollars)	
Cash from operations	Net earnings	$ 50,540	$ 36,520
	Add: Depreciation and other items not requiring or generating cash (net)	99,722	100,086
	Total from operations	150,262	136,606
	Net change in working capital (Note 11)	(5,628)	(1,149)
	Funding of early retirement benefit costs	—	(7,012)
	Cash provided by operating activities	144,634	128,445
Cash from financing	Proceeds from notes payable	20,800	5,000
	Proceeds from long-term debt	13,597	32,598
	Repayment of long-term debt	(20,922)	(16,667)
	Dividend payment	(18,260)	(18,492)
	Cash provided by (used in) financing activities	(4,785)	2,439
Cash for construction	Gross construction expenditures	(153,515)	(144,576)
	Change in material and supplies	(1,241)	(2,092)
	Net salvage, capital contributions and other items not requiring cash	12,634	17,140
	Cash used in construction activity	(142,122)	(129,528)
	Net increase (decrease) in cash during the year	(2,273)	1,356
	Cash position at beginning of year	3,803	2,447
	Cash position at end of year	$ 1,530	$ 3,803

See accompanying notes

Notes to consolidated financial statements

Note 1 — The corporation

Saskatchewan Telecommunications (SaskTel), a provincially owned Crown Corporation, markets and supplies a range of voice, data, text and image products, systems and services. Its membership in Telecom Canada enables it to extend its services throughout Canada and to connect its customers to the rest of the world.

The financial results of the corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

Note 2 — Summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

Consolidation

The consolidated financial statements include the accounts of the company's wholly-owned subsidiary, Saskatchewan Telecommunications International, Inc. All significant intercompany transactions have been eliminated.

Property, plant and equipment

Property, plant and equipment is recorded at original cost and includes materials, services, direct labour and associated benefit costs, which are readily quantifiable and identifiable with the construction activity. In addition, the corporation includes the cost of funds used to finance construction, based on the size and duration of the projects.

Depreciation

Depreciation is computed on the straight-line, equal-life group method using rates as determined by a continuing program of engineering studies for each class of property in service.

When depreciable telephone property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

The composite depreciation rate on the average depreciable telecommunications property in service was 7.26 percent in 1987 (7.29 percent in 1986).

As at December 31, 1987 the ratio of accumulated depreciation to depreciable telecommunications property was 39.6 percent (1986 – 41.0 percent).

Cost of early retirement plan benefits

Benefit costs under the corporation's 1986 early retirement plan are being amortized over a 24-month period ending August, 1988. In 1987 the amount of $3,506,100 was expensed ($1,168,742 in 1986).

Pension costs

Commencing in 1987, the cost of pension benefits earned by employees who are members of the corporation's defined benefit plan is determined using the accrued benefit method prorated on service and is charged to expense as services are rendered. This cost reflects management's best estimate of the plan's expected investment yields, salary increases, mortality of members, terminations and the ages at which members will retire.

This plan is actuarially valued at least every three years. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service lives of the employees who are members of the defined benefit plan.

Foreign currency translations

Net long-term debt payable in foreign currency is stated in Canadian dollars at the foreign exchange rate prevailing at December 31. Foreign exchange gains or losses arising on translation of long-term debt are included in deferred charges and are amortized on a straight-line basis over the current year and the remaining life of the debt.

Interest accrued on long-term debt payable in foreign currency is recorded in Canadian dollars at the foreign exchange rate prevailing at year end. Interest paid during the year on long-term debt is translated at the currency rate prevailing at the interest payment date. Any gains or losses relating to these items are charged to income in the current period.

Sales-type leases

Sales revenues associated with sales-type lease transactions are recognized at the inception of the lease. The net investment in sales-type leases represents the present value of future lease payments receivable. Finance income is recognized when payments are received in a manner which produces a constant rate of return over the term of the lease contract.

Sinking fund equity

The corporation's investment in sinking funds is reflected at cost. Effective January 1, 1987, the Province of Saskatchewan, who administers these funds on behalf of various Provincial Crown Corporations, combined several sinking funds into one fund. In conjunction with this pooling arrangement, certain accounting changes were applied which resulted in the corporation's equity in

sinking funds being increased by $2,705,000. Since the effect of this adjustment with respect to specific prior periods cannot be determined, comparative figures for prior periods have not been adjusted.

Note 3 — Interest and related costs

	1987	1986
	(Thousands of dollars)	
Interest charges	$ 84,284	$ 82,934
Amortization of discount	470	499
Amortization of foreign exchange provisions	1,759	3,244
	86,513	86,677
Less: Sinking fund earnings	13,529	13,381
Gain on debt retirement	100	127
Interest charged to construction	2,152	1,395
Interest on temporary cash investments	230	929
	$ 70,502	$ 70,845

Note 4 — Property, plant and equipment

	1987	1986
	(Thousands of dollars)	
Buildings, plant and equipment	$1,316,114	$1,232,852
Land	8,106	8,596
Plant under construction	17,473	38,190
Materials and supplies	15,929	14,688
	1,357,622	1,294,326
Less: Accumulated depreciation	521,633	506,737
	$ 835,989	$ 787,589

Note 5 — Investment in Telesat Canada

This investment represents 99,900 no par value common shares, of Telesat Canada at an issue price of $10 per share.

Note 6 — Investment in leases

The corporation's investment as at December 31 consisted of:

	1987	1986
	(Thousands of dollars)	
Total minimum lease payments receivable	$ 30,217	$ 28,066
Less: Unearned finance income	9,231	8,788
Net investment in leases	20,986	19,278
Less: Current portion included in accounts receivable	4,331	3,803
	$ 16,655	$ 15,475

Finance income earned during the year amounted to $2,911,000 (1986 — $2,393,000).

Note 7 — Notes receivable

	1987	1986
	(Thousands of dollars)	
This consists of the following:		
Notes receivable - Cable operators	$ 26,716	$ 25,837
Note receivable - Cadillac Fairview Shopping Centres	10,152	11,750
	36,868	37,587
Less: Current portion included in accounts receivable	3,935	3,109
	$ 32,933	$ 34,478

Notes receivable — Cable operators

This consists of nine separate notes each due on October 1, 1996. The tangible portion of the cable television distribution systems sold to specific operators in the province has been pledged as collateral against these notes.

Note receivable — Cadillac Fairview Shopping Centres

This consists of a non-interest-bearing note receivable due December 31, 1990 discounted at 11.93 percent to reflect the net present value of $10,152,000 as at December 31, 1987. Lease rents have been pledged as collateral against the note. The payments are due each December 31 as follows:

1988 - $3,000,000
1989 - $4,000,000
1990 - $6,000,000

Note 8 — Deferred charges

	1987	1986
	(Thousands of dollars)	
Applicable to long-term debt:		
Unamortized discount ..	$ 4,816	$ 5,287
Unamortized unrealized net foreign currency losses ..	26,687	43,892
	31,503	49,179
Less: Unamortized gain on retirements before maturity	259	359
	31,244	48,820
Unamortized early retirement plan benefit costs	2,337	5,843
	$33,581	$54,663

Note 9 — Long-term debt Province of Saskatchewan

Percent	Issue date	Due date	Recorded debt outstanding 1987		1986
			(Thousands of dollars)		
5.698	1967	1987	$ —		$ 2,682
6.000	Mar. 1, 1967	Mar. 1, 1987	—		2,928
6.549	1968	1988	2,000	(c)	2,000
7.541	1969	1989	10,100	(c)	10,100
8.093	1970	1990	9,806	(c)	9,806
4.875	Oct. 1, 1965	Oct. 1, 1990	7,666	(b)	8,145
7.125	1971	1991	9,461	(c)	9,461
16.375	Oct. 1,1981	Oct. 1, 1991	64,965	(b)	69,025
7.528	1972	1992	15,093	(c)	15,093
7.689	1973	1993	8,644	(c)	8,644
13.375	Apr. 1, 1981	Apr. 1, 1996	73,955		73,955
7.750	Feb. 15, 1973	Feb. 15, 1998	5,000		5,000
8.250	Dec. 3, 1973	Dec. 3, 1998	15,000		15,000
10.000	Dec. 2, 1974	Dec. 2, 1999	25,000		25,000
11.750	June 2, 1980	June 2, 2000	25,000		25,000
9.875	Nov. 3, 1975	Nov. 3, 2000	2,222		2,222
10.250	Apr. 1, 1976	Apr. 1, 2001	25,000		25,000
9.000	Feb. 1, 1977	Feb. 1, 2002	25,000		25,000
13.000	Dec. 1, 1982	Dec. 1, 2002	75,000		75,000
12.250	Mar. 30, 1983	Mar. 30, 2003	25,000		25,000
9.500	June 15, 1978	June 15, 2003	30,000		30,000
11.650	1983	2003	8,182	(c)	8,182
12.966	1984	2004	28,956	(c)	28,956
10.000	May 15, 1979	May 15, 2004	40,000		40,000
8.700	Nov. 15, 1976	Nov. 15, 2006	64,965	(b)	69,025
9.583	1986	2006	32,598	(c)	32,598
10.241	1987	2007	13,597	(c)	—
8.625	May 15, 1977	May 15, 2007	64,965	(b)	69,025
9.250	April 27, 1978	April 15, 2008	64,965	(b)	69,025
			772,140		780,872
Less: Equity in sinking funds			122,653		105,908
Due within one year			2,247		7,558
Long-term debt – December 31			$ 647,240		$ 667,406

(a) All long-term debt is unconditionally guaranteed as to principal and interest by the Province of Saskatchewan.

(b) Represents long-term debt repayable in United States dollars having a U.S. face value of $205,900,000 converted to $225,599,000 Canadian at the time of issue. It is recorded in Canadian dollar equivalent of $267,526,000 based on the foreign exchange rate prevailing as at December 31, 1987 of 1.2993 (1986 – 1.3805).

(c) Long-term debt totalling $138,437,000 received through the Canada Pension Plan under 20-year terms, is subject to redemption at six months notice.

(d) Under conditions attached to most long-term debt, the corporation is required to pay annually into sinking funds administered by the Province of Saskatchewan amounts ranging from 1 percent to 3 percent of the original value of long-term debt received. The equity shown includes investments denominated in U.S. dollars held in the fund having a U.S. dollar value of $8,810,000 recorded at $11,447,000 Canadian dollar equivalent based on the foreign exchange rate prevailing as at December 31, 1987.

(e) Total sinking fund installments and long-term debt repayments (net of sinking fund equity) on outstanding debt over the next five years are as follows:

1988 - $ 2,247,000
1989 - $ 9,173,000
1990 - $ 3,968,000
1991 - $72,652,000
1992 - $10,537,000

Note 10 — Notes payable

Notes payable represents interim capital financing arranged under established lines of credit. As at December 31, 1987 there were $30.8 million (1986 – $10.0 million) of outstanding notes payable to the Province of Saskatchewan bearing interest at an average rate of 8.75 percent (1986 – 8.33 percent).

Note 11 — Net change in working capital

Cash provided (applied) by changes in working capital:

	1987	1986
	(Thousands of dollars)	
(Increase) decrease in current assets:		
Accounts receivable	$ (4,222)	$ (8,619)
Prepayments	153	(425)
Inventory held for resale	(1,233)	(410)
Increase (decrease) in current liabilities:		
Accounts payable	(1,813)	7,771
Interest accrued	389	430
Service billed in advance	1,098	104
	$ (5,628)	$ (1,149)

Note 12 — Commitments

As at December 31, 1987, the corporation was committed in the amount of approximately $12.5 million for construction materials, equipment and services related to switching equipment modernization.

Note 13 — Pension plans

The corporation maintains pension plans which provide retirement benefits for essentially all employees.

A defined benefit plan is maintained for those employees who were hired prior to October 1, 1977 and who did not elect to transfer to the Public Employee's (Government Contributory) Superannuation Plan by October 1, 1978. This latter plan is a defined contribution plan, its funding requirements are established by the Superannuation (Supplementary Provisions) Act and employee contributions are matched by the corporation.

The defined benefit plan provides for pensions at retirement which are based on employees years of service and their highest five years earnings. The plan requires contributions from both employees and the corporation. The corporate contribution rate of 114 percent of employee contributions is based on the latest actuarial valuation of the plan (December 31, 1986). This will fully amortize the unfunded liability over the estimated average remaining service lives of the employees in the plan (18 years).

	1987	1986
	(Thousands of dollars)	
Present value of accrued pension benefits	$ 301,500	$ 295,176
Plan assets at market value	294,511	284,633
Unfunded liability	$ 6,989	$ 10,543

Pension expense for the year amounted to $4,821,000 (1986–$5,969,000).

Note 14 — Related party transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to (from) related parties and the terms of settlements are described separately in the financial statements and the notes thereto.

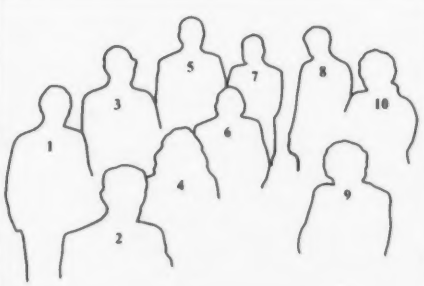
Board of directors

Hon. J. Gary Lane, Q.C., Regina (1)
Garth Kennedy, Chairman, Regina (2)
Jack McFaull, Saskatoon (3)
Helen Krozser, Markinch (4)
Art Watt, Craik (5)
Ted Urness, Saskatoon (6)
Lyle Taylor, Melfort (7)
Mark Seidel, Humboldt (8)
Bertha Vanderhaeghe, Esterhazy (9)
Bette Harris, Nipawin (10)

Committees of the board

Audit committee

Mark Seidel
Garth Kennedy
Bette Harris
Ted Urness



Corporate contributions committee

Lyle Taylor
Bertha Vanderhaeghe
Art Watt

Marketing committee

Ted Urness
Garth Kennedy

Management resources and compensation committee

Jack McFaull
Garth Kennedy

Corporate directory 1987

Executive officers

James A. Coombs
President &
Chief Executive Officer

Roger E. Bason
Vice President
Finance and Corporate
Development

David R. Carlin
Vice President
Operations North

Christopher J. Elmer
Vice President
Business Development

B. William Lambert
Vice President
Engineering

John C. Meldrum
Vice President
and Corporate Counsel

H. James Osborne
Vice President
Corporate Affairs

Barry E. Roberts
Vice President
Human Resources,
Supplies and Services

George A. Spencer
Vice President
Operations South

William A. Bruce
President
SaskTel International

Senior operating managers

Doug Campbell
General Manager
Outside Plant Engineering

Basil G. Ciepliski
General Manager
Operations North Districts

Dennis Czinkota
General Manager
Operations North

David M. Harvey
General Manager
Mobile Services

Moe Hawrysh
General Manager
Network Planning
& Provisioning

Betty A. Hoffart
Treasurer

Claire Ingles
General Manager
Human Resources

Jack T. Lax
General Manager
Industrial Relations

Ron L. Luebke
General Manager
Operations Saskatoon

John G. McGregor
General Manager
System Sales and
Service South

George Mueske
General Manager
Corporate Information
Systems

Donald J. Savaria
General Manager
Public Affairs

Bill W. Simes
General Manager
Operations Districts South

Norman F. Stepan
General Manager
Operations Regina

Randy R. Stephanson
Controller

David Schultz
Acting General Manager
System Sales and
Service North

Kenneth H. Thompson
General Manager
Services South

Bill Wendel
General Manager
Systems and Methods

Fred E. Yeo
General Manager
Supplies and Services

80 years of service

The corporation in 1988 will celebrate 80 years of providing service to the people of Saskatchewan. SaskTel dates back to 1908 when it was established by an act of the Saskatchewan legislature. In 1947, the organization became a crown corporation known as Saskatchewan Government Telephones (SGT). The name was changed in 1969 to Saskatchewan Telecommunications (SaskTel) to reflect the growing diversification of its products and services.

SaskTel is a provincially owned crown corporation responsible for providing voice, data, text and image services within the province of Saskatchewan. The corporation also provides these services on a national and international level through its membership in Telecom Canada.

SaskTel employs approximately 4,500 people located in 63 communities throughout the province. The head office is in Regina.

An innovative leader in the telecommunications industry, the corporation continues to provide high quality, reasonably priced services by applying the latest technological advances in the most economical way.

SASKTEL. A HISTORY OF QUALITY, SERVICE AND DEPENDABILITY.

Since the early 1900s, SaskTel has been meeting a commitment to Saskatchewan. We've been leading the way with innovative telecommunications products and services.

Today, the assurance of quality, service and dependability is stronger than ever. We're using our expertise to provide Saskatchewan with the most advanced technology for residential and business communications.

And with SaskTel, you can be sure we'll be there to back all our products with professional service. After all, we've been there for nearly 80 years.

SaskTel

Nationwide Communications through Telecom Canada